ARVIND FASHIONS LIMITED

A MEMBER OF THE LALBHAI GROUP

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November 5, 2024

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

Security Code : 542484
Security ID : ARVINDFASN

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

Symbol : ARVINDFASN

Dear Sir/Madam,

Subject: Earning call Transcript with Analysts and Investors for the second quarter and half year ended September 30, 2024.

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please refer below link of transcript of conference call arranged by the company with analysts and investors on Tuesday, October 29, 2024 for post announcement of Financial Results for the second quarter and half year ended September 30, 2024.

On the website of the company:

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

Title: Earnings Call Transcript Q2 FY-25

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: 2024.11.05 18:22:49 +05'30'

Lipi Jha
Company Secretary

Q2 FY2025 Earnings Call Transcript – Oct 29, 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 Q2 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. Hello and welcome everyone and thank you for joining us on Arvind Fashions Limited earnings conference call for the second quarter and half ended Sep 30, 2024. 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, 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'll commence today's call with Kulin providing his key strategic thoughts on our second quarter'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: Thank you, Ankit. A very good afternoon to you all. Thank you for joining us for the Q2 results. We are pleased to share that AFL delivered its highest ever sales and EBITDA despite the demand environment remaining muted.

Our sales grew by 8.5%, led by a healthy 4.6% LTL in our retail channel and around 20% growth in the online channel. This led to an 18% growth in EBITDA to INR 170 crores and delivered more than 110 basis points margin expansion. We continue to stay focused on profitable growth, which is helping us deliver on our balance sheet and cash flow metrics, with overall gross working capital continuing to stay stable and inventory turns improving to more than 4x.

One of the key highlights for us over the past few quarters has been the investment into our growth levers and re-energizing all our brands through marquee advertising campaigns. We invested significantly behind most of our brands during the quarter, and this led to new customer acquisition and market share gains. While the wholesale channel witnessed tepid growth, the online channel bounced back with strong growth, and our pivot towards the B2C model is showing good results.

With the ongoing festival season and a strong wedding calendar in H2, we remain hopeful that the growth momentum will continue. We will continue to stay focused on our mantra of profitable growth, resulting in further improvement in return on capital employed.

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: Thanks, Kulin. I take this opportunity to wish everyone on this call very Happy Dhanteras and a very Happy Diwali. AFL delivered 8.5% growth in revenue and 19% growth in EBITDA, Q2FY25 saw the highest ever quarterly sales, the highest ever quarterly EBITDA and the highest ever operating PAT for AFL. NSV in Q2 was INR1,273 crores backed by accelerating store expansion and healthy retail like-to-like growth of 4.6%. Direct channels, including retail as well as online B2C reported robust double-digit growth.

Q2 saw execution of heightened brand plans with first-of-its-kind collaboration collections with celebs like Orry and His Highness Pacho of Jaipur royal family. As part of our premiumization drive, U.S. Polo Association has engaged with His Highness Pacho for a global tie-up for promotion of game of polo globally and creation of a premium collab line here, which has received tremendous consumer response with its unique insights collected from history of Jaipur royal family.

While this collab on U.S. Polo Association was about nuances of heritage, the other big collab collection with social media sensation Orry was done for Flying Machine to further strengthen its appeal with Gen Z consumers, highlighting the new product direction inspired by Korean and Japanese oversized baggy outfits.

Presence of Orry in key markets of Delhi and Bangalore in peak season fully supported brand visibility and Flying Machine got higher media visibility in support of its new Gen Z model avatar. Both the collab campaigns received tremendous media coverage and helped us register fantastic like-for-like growth.

U.S. Polo Association has seen strong momentum with further strengthening of business on its website, continued rollout of iconic stores, resulting in double-digit growth in both revenue and EBITDA, and with very healthy double-digit like-for-like growth in Q2, a case of strong brands becoming stronger.

Flying Machine has also grown handsomely in online space and has further increased its distribution with MBO channel partners. Arrow also saw improved profitability in Q2, backed by visibility through a unique marketing event for its super premium 1851 collection in partnership with GQ publication that showcased brand ambassador, Hrithik Roshan walking down the ramp in a prestigious mega event in Mumbai.

Tommy Hilfiger and Calvin Klein have again delivered sterling performances on like-to-like retail growth, overall revenue growth as well as on profitability. Overall, Q2 saw a strong momentum in our brands, showcasing immense strength of our powerful casual brand portfolio poised for higher-than-industry performance.

The quarter had started with good end-of-season sale in July and August, supported by the fact that we had delayed EOSS sales in June to June end because of good sell-thru's. September business continued its growth momentum because of early festival calendar as well as with the positive influence of various marketing investments, resulting in healthy 4.6% like-to-like growth in retail channel in Q2 despite overall muted market sentiments.

The quarterly growth of 8.5% benefited from higher investment in advertising, launch of unique collab collection and a healthy square foot expansion and higher revenue growth in direct channels with improved channel margin. We increased advertising spend in Q2 by 50 basis points to support our premiumization and innovation drive in order to fuel growth. Despite this 50 basis point increase in advertising, our EBITDA grew by 19% with improvement in profitability by more than 110 basis points.

At end of H1 FY25, AFL revenue growth stood at 9.2% and EBITDA growth at 19% with 100 basis points margin expansion. These innovations and higher advertising spend ensure that our growth drivers were on track. We increased retail square foot by 81,000 square feet in H1 with the addition of 56 new stores.

The adjacent categories continue to grow faster with encouraging doubling of business in U.S. Polo women's wear on a small base with continued growth in kids' wear, footwear and innerwear. Premiumization drive and renovation of stores also contributed significantly to growth efforts.

Digital business has grown around 20% with fantastic growth of 40% in online B2C direct channel with improved channel margins. The growth in wholesale channels was lower because of muted market conditions but mainly due to continuous pruning down of long tail, low-margin distribution points in wholesale network. The resultant efficiencies are seen in the rapid growth of EBITDA.

Our journey on improvement in GP continues. There was a COGS efficiency in Q2 of nearly 50 basis points, but it was offset by changes in channel mix, for example, higher revenue mix of online business in Q2, resulting in stable GP at 50.4%. But with higher channel margins and overall cost efficiencies on supply chain, manpower cost, there was a healthy growth in EBITDA by 19%, more than 110 basis points increase despite higher marketing spend of nearly 50 basis points.

We continue to keep tight control on balance sheet items. Inventory levels have remained almost INR 100 crores lower than H1, and yet the business has grown at 9.2%, indicating faster rotation of inventory.

Stock turns have stayed healthy at more than 4 turns. While inventory went down by 4 days, the receivables went up slightly due to the fact that Q2 was a billing quarter for festival season. But overall, GWC stayed stable at around 140 days, NWC stable at 60 days, resulting in healthy reduction in borrowing and movement of ROCE towards 20% mark.

Diwali business has picked up compared to last year where it was impacted by the World Cup Cricket. And now we are seeing good, healthy like-to-like growth. We will clearly wait and watch for the remaining 2 months ahead of Q3 with large business expected from wedding and winter seasons. We remain very committed to decisive focus on energizing our strong brands and through their profitable growth journey, thereby delivering improved ROCE. We remain optimistic that our consumers will continue to vote in favour of our market-leading brands in the second half of the financial year.

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

Moderator: Thank you. The first question is from the line of Priyank Chheda from Vallum Capital. Please go ahead.

Priyank Chheda: Congratulations for great performance. Just a clarification on the Tommy CK, when Shailesh mentioned that it had it witnessed a strong LFL growth. While if I had to just compare on the P&L non-controlling interest profit, which suggests that Tommy CK would have not grown in strong double digits or single digits even if the profits on the non-controlling interest is flat. So just help me with this, how the brand has actually performed.

Shailesh Chaturvedi: As I said earlier in the call, we saw another sterling performance in this quarter from the PVH brands, Tommy Hilfiger, CK on all the fronts. The minority interest that you are referring to in the P&L, we also include another brand of our Flying Machine.

And this is a year of investment in Flying Machine. And we have increased our advertising spend significantly with this Orry initiative, and that's what you are reading in terms of the minority interest.

Priyank Chheda: Got it. Very clear. And on the wholesale business, while in whole of FY24, it was kind of a flat performance that we saw. And now you did mention that you have reduced a tail in the MBO channel.

So just help us, how should we see this when it comes to the full year performance? And I also reckon that there is FM and Arrow, which is undergoing correction in this. So how should we look at wholesale business for the full year?

Shailesh Chaturvedi: See, Priyank, let me put it into two parts. One is the growth in other channels and also then the wholesale part. Our emphasis is on direct channels, and if you look at retail, has grown double digit, and the channel margin has grown even at a higher pace. If you look at online, the growth is close to 20%, and B2C has grown close to 40%. And the channel margins have also improved there. So our emphasis has been on direct channel.

And wholesale channels have not grown in comparison to the direct channel because our emphasis is to push the channel where we directly control the experience with the consumer. And we do all the assortment and marketing and pricing, everything. Now this quarter, the online business has also grown faster than normal because the tower event last year in online world was in early October, but it happened in September. So we got a little higher growth than normal while the business is growing really well, but we got even further growth in online business because of the preponement of the tower event. Now if you look at this growth in direct channel, the wholesale revenue as a percentage looks lower. Its business has been flat. The markets have been muted, and we all know that. And parallelly, we will continuously looking at our mantra of profitable growth.

And we've been pruning loss-making, tail doors in all channels, including in wholesale channel, especially in department store. And we've done cutting down of the tail, especially in department store. And the benefit of that in terms of saving on stock, increased stock turn, lower manpower cost, that's flowing into our channel margin and is showing in terms of higher EBITDA.

So I can talk there. While department store, we have pruned down, and the growth had been less, but our growth in channel margin on department store has been very, very healthy. So we are going for the profitable growth. And I think the trend should continue in the short term. The impact of the tower event may not happen going forward. But overall, our direct channels will continue to grow faster than the wholesale channel.

Priyank Chheda: Perfect. That's clear. And just last question. So, Shailesh, overall, we were looking out for a retail square feet addition of 15%. Now when for the first half the like-to-like growth and the market demand has been subdued. In such subdued scenario, do we alter any plans with respect to our square feet addition and focusing more on the kind of online B2B, B2C? Any changes in the overall plan that you were thinking earlier?

Shailesh Chaturvedi: No. See, if I step back and look at our all growth drivers, we have put a lot more energy in build up of the growth, including in the square foot expansion. We put more feet on the ground. Our format for store expansions are ready. Our innovation on formats like Club A, Stride, large store, U.S. Polo, iconic stores are all ready.

So actually, we are further investing. And we're putting more fuel in our growth engine, be it like-to-like growth. We've done 4.6% in very tough market conditions because of all our marketing efforts. And the collection and the rigor on retail is helping us there. We are seeing accelerated square foot expansion, Priyank. So we will only add more square foot -- even if you look at this year, first half, we opened net addition of 81,000 square feet. And we are committed to this 15% CAGR every year on square foot expansion.

And this will only accelerate because we have put a lot more fuel. We have a lot more people, lot more structure, lot more processes at the back end to be able to grow the square foot expansion faster. So there's no change, Priyank. In fact, we remain very, very strong behind square foot expansion, behind like-to-like growth, behind growth of our adjacent category, premiumization, renovation, growth of digital channel, which has done so well in this quarter.

So Priyank, we are committed to the growth drivers that we've been guiding, and we'll continue to put more fuel behind that. There's no change.

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

Palash Kawale: Congratulations team on the good set of results. So my first question would be, again, on distribution channels. So could you just explain in detail the seasonality in this channel for Arvind Fashions?

Shailesh Chaturvedi: We have a business which is very, very seasonal. And if you look at our mix, if you look at retail, in the first half, the contribution of retail has been close to 40%-41%. If I look at wholesale channel, this is around 30%, and online has been slightly above 25%.

So if I look at our half-yearly contribution and the direct channel, which is the online B2C, and the retail are growing faster because that's where we are putting a lot more energy. And we see a rationale behind that because we get to influence the consumer decision much more tightly in that. And that's a long-term strategy, also the margin profile, ROCE profile because everything is about ROCE, which is our north star. So that's a broad answer.

Now if I break down the business into quarter-to-quarter, we have 2 seasons, spring/summer and fall holiday. Now each of the season and the first part of the season gets a little higher wholesale billing because we supply goods to the market during the Feb, March, April month. You'll see a lot more wholesale billing, whether it's to the department store channel or to the MBO channel or to the B2B online.

And in the second half of the season, so which will be in spring/summer, it will be more like April, May, June, you'll see more retail contribution and more B2C online contribution. So the first in a way, if you really see Jan, March quarter tends to be a little more wholesale quarter. And then same way the July, August, September also sees a little more wholesale billing whereas the April, June quarter and the October, December quarter tends to be more retail-driven. That's the seasonality and business, Palash.

Palash Kawale: And sir, I happened to visit one of the MBOs where Flying Machine products were selling and could find the change in offerings. And the products I found were very trendy and eye-catching, so kudos to the team. So what kind of improvement have you seen in the demand or brand metrics if you could shed some light on that?

Shailesh Chaturvedi: Thanks, Palash, for visiting our store and spending time on seeing all the hard work that Flying Machine and team has done on improving its appeal to a more sort of a Gen Z, oversized, Japanese, Korean-inspired brand. We've done a lot of work from the change of logo to change of brand appeal to the focus on consumer, which are most Gen Z plus millennial. And it's taken us time, but now we are seeing the green shoots, Palash, on that.

And if I look at the channels which reflects that improvement immediately are the channel like online, there's a lot of young Gen Zs. The first channel tends to be online and also in MBO, because MBO channel has an entrepreneur take so it's faster. And in a very competitive environment, you see where the brand is doing well. And in both the channels, online as well as in MBO channel, we have seen really good improvement in Flying Machine.

I can say that in the last 6 months. So if I talk about quarter 1 and quarter 2 of this financial year, the online growth in FM has been more than 50%. Now, this is an important channel, which we believe will be 30% of our revenue in Flying Machine. And this whole oversized tees with prints and what the Orry collection has seen, the Jorts that we sell, we sell a lot more on online. So we're seeing good traction. The channel margins also have improved for Flying Machine there.

Also, MBO with this new appeal, there is a gap in the market, there are not too many brands like this in the offline world. B2C, yes, there are some brands, but the traditional brands don't have this kind of appeal. And I think the channel is realizing, MBO channels, that they need brand like that. And FM can take a market-leading position in that. So the MBOs also, we've been able to grow the counters with Flying Machine.

I must caution here that it's very early days. There's still a lot of investments required behind refurbishing shop-in-shop, new visual merchandising standard, re-doing the EBO. So we are very early stage of the journey, but if I look back, we are very pleased with the progress that Flying Machine has made recently and the green shoots that we are seeing and what you saw at the counter. And we believe in it, and we'll continue to invest behind our own brand Flying Machine going forward.

Moderator: Thank you. The next question is from the line of Tejas Shah from Avendus Spark Institutional Equities. Please go ahead.

Tejas Shah: Congrats on a good set of numbers in difficult times. Just wanted to know, you just made a statement that we are going B2C to control the better experience, customers' brand experience. Just wanted to know, is this referring to wholesale which is actually into department stores, which are national chain, or we are referring to a small mom-and-pop stores wholesale business here?

Shailesh Chaturvedi: See, Tejash, when we use the word direct channel, these are the channels where we directly interact with the end consumer. So basically, 2 channels are predominantly B2C or direct channel in our system. One is the retail, our EBOs, whether it's our own COCO store or in our case, largely franchisee-run store where we directly interact with the consumers on a day-to-day basis. We see the white of the eye of the consumer on a daily basis.

So the EBO is the one channel, which is around 41% of our revenue mix. And second is the online B2C, where there are two methods here. One is we sell it to, let's say, a Myntra, and then Myntra on its own sells to the consumers at its own pricing and its own cataloguing. That's a wholesale model of online.

But what we are referring here is a direct model where - what is also known as a marketplace model, which is seen in like T-Mall in China, etc., where we keep the assortment of inventory, we decide what should be the assortment, we decide the pricing, we decide the discounting, we do the cataloguing and we do all the marketing, performance marketing and key marketing efforts to influence the consumer. So we typically are talking about retail channel, EBOs and we are talking about online B2C or this marketplace model.

Tejas Shah: Got it. Very clear. And just a follow-up. So out of the three objectives here, the way I understand one is the brand positioning or the brand halo or experience followed by more full price sale. And third is obviously the better ability to forecast demand or the trends are based on your direct exposure to customers. Which of these three problem statements or there are more, which we are actually able to solve better by going direct?

Shailesh Chaturvedi: See, there are two big issues or problem that we are solving or driving. One is the inventory, which is very important and the sell-thru's of inventory. Second is the ROCE, because ROCE is our north star. We want to do everything to maximize our ROCE in this company and cash generation.

So as far as inventory is concerned that we believe that we have all the scientific tools. We have better knowledge of fashion trends globally. And we have all the analytical abilities in the company to decide what assortment to prepare. And probably, hopefully, we do a better job than our channel partner will be able to do.

So we believe that in direct channels where we take control of the inventory, we are able to drive the sell-throughs better. Or in a retail language, you try to say sales per square foot or in online equivalent of that, for every visit of the consumer or click, how much more can we sell.

So once we take charge of the inventory and the assortment, we believe that's a better outcome for us. And we want to push the full price sell-thru aggressively and through more scientific tools available to the company. That's one aspect of going direct.

Second part also is the ROCE part. So what happens in a direct model. We have seen the movement of stock is faster. So our stock turns are higher. Also the cash generation is better. So in retail, for example, we send the goods on SOR. And every day, whatever is sold is next day transferred to our bank. So our cash conversion cycle is much faster in the direct model.

Same thing in the online, also the cash conversion cycle is much faster. So we get better ROCE because our efficiency on stock is better, and also our cash conversion is much faster. So that's why we're going direct, and also we get the consumer database. We have a pulse of what consumer is expecting, what you used the word shopping experience. So that's true. And then inventory sell-thru, stock turns and also the cash conversion all leading to better ROCE in this channel, that is the mantra.

Tejas Shah: Thanks for very detailed answer. And last one, if I may. You spoke about 15% of footprint expansion. What is the nature of this? Will you be adding new territories or going deeper in markets? Or the store size, because you are adding subcategories also in existing brands. So, will it be expansion in store sizes? Or will you be adding more locations in new markets?

Shailesh Chaturvedi: See, this 15% figure is an ambitious target. And then we take a target like that where we'll have to talk about in a close to 1.5 lakh square foot every year. It’s very aggressive, and it will require all efforts. It's not just one effort. So couple of things will happen that with premiumization efforts and addition of adjacent category, we need bigger space like, for example, U.S. Polo. The adjacent categories are 30% of the business, whereas company level, we are at 20%. So U.S. Polo needs more square foot, and we've opened almost 10, these marquee stores in all the key high streets of India from Banjara Hill to Jayanagar, Bangalore to Indiranagar, Bangalore to Goa to Jodhpur. We are opening these large 4,000 square foot building ground plus 2, where women's wear is there, kids' wear is there, innerwear is there, footwear is there. So that's one large format.

And that's true for Arrow also, because Arrow has adjacent category going up, Flying Machine. I mean, all our brands, whether Tommy Hilfiger, Calvin Klein, we are adding bigger stores. So that's one part of it. Second is that if you look at our square foot, we are at close to 1.15 million square foot. And we believe we should be, in the near term, should be closer to 2 million. And there are competitors who are at that level. And we see opportunity to expand rapidly because in some sense, we are slightly subscale and there is opportunity to increase the distribution in many key high streets and malls for all our brands, especially for Arrow and Flying Machine. We see opportunity without taking too much of risk to expand square footage.

Also, we are seeing a lot of energy in the suburb of the big metros. So it's not just a Tier 3, Tier 4 expansion. We are seeing that in our Bangalore city, the population now going beyond 1.5 crores and tomorrow, to 2 crores or the same thing for Hyderabad, same thing for Chennai, where the metros are becoming mega metros. And we see opportunity to open 15-20 stores in all these big cities where consumption patterns are more - there's no risk.

And also, the smaller tier, we will expand. And we'll expand with the short, short brands like U.S. Polo. So we see opportunity in small tier, very large opportunity in the suburbs of the big cities, the satellite towns of the big cities. We see scope to expand adjacent categories to larger store.

And also we have format renovation or format innovation. So we did outlet format, which is a 4,000 square feet. We opened 'Club A', which is a full price, very premium. We opened one store in Surat recently in addition to the Bangalore so that we already had. We have an accessory, footwear, handbag concept called 'Stride' that we are expanding. So there are a lot of new innovative formats that we'll also get to expand.

And one unique thing is that given the entrepreneur energy in India, we are getting a lot of franchisee interest. So most of these are very asset-light FOFO model expansion. And the partners also bring a lot of value add in terms of negotiation or relationship with the landlord, etc. So most of our expansion is in FOFO model. So we are expanding in all directions, and we believe that we could add a lot many square foot from the current 1.15 million square feet that we have today.

Moderator: Thank you very much. The next question is from the line of Aniket Shah from RK Advisory. Please go ahead.

Aniket Shah: Congratulations on great set of numbers. So sir, my first question is regarding the FOFO route. Just now also, you have told that we are opening these stores through the FOFO route. If I'm not mistaken, in the last quarter, we guided that we will be shifting to the COCO model. So I just need to understand why we are going through FOFO route again, if you can throw some light on that?

Shailesh Chaturvedi: Mr. Shah, I mean, there's some confusion. But because for many years, we are very focused on FOFO model. Our whole expansion is very asset-light focus. I don't know when you picked up, sir, about this COCO expansion. We don't have COCO expansion plan. Our entire expansion is largely FOFO except one brand, which maybe you would have picked up, that's in Tommy Hilfiger. That's a business which is very high on cash generation, the business is sitting on cash. So one of the way to improve our ROCE and AFL is to deploy that capital while the dividend is paid out regularly, but there is still a lot more money available to take over stores. So in that one particular brand, that one particular business, because we have cash surplus in the bank, so we open now close to 60 stores on a COCO model in Tommy because that the margin there are extremely good, and that really helps the ROCE of the business.

But other than that, that's more of a capital deployment sort of a strategy. Other than that, our entire emphasis is on the FOFO model, and it has always been like that. I don't know when you picked up something differently from us.

Aniket Shah: Okay, sir. So my next question will be like how we are enhancing our online consumer experience. So just compared to our wholesale outlet, especially like considering our wholesale contribution has been decreased to 33% while online and other mix are increased to 30% in Q2.

Shailesh Chaturvedi: See, one philosophical view is that we want to go where the consumers are. And we want to sort of follow where the consumers are. And a lot of young consumers, Gen Z, millennials, for their life, online is very important, both from the discovery as well as from shopping point of view increasingly.

And we are very committed. We are a market leader in that business. We invested ahead of the time. We have a very large digital team to manage websites, to manage analytics, to manage market players, to manage wholesale business through key partners. We are a leader there.

So we have done multiple things. We have invested aggressively, so more than INR 1,000 crores business for our company, a profitable business. So we have a large investment done and not now, many, many years back. And we have right from the omni-linkage of our store where the store inventory gets highlighted on the website like, let's say, Amazon or Myntra, and the consumer traffic sees the inventory available in our store. And we sell full price business from the store back to marketplace model, which I alluded to earlier where we manage the inventory, we decide the assortment. And we are really taking bold call on increasing the inventory there, but we have a very good stock turn for that. And we assort the goods right for that. We look at the analytics behind the assortment. We have a lot of analytical tools and the talent to manage the analytics in the company. We do cataloguing. We are available in all the key portal websites of India from Myntra to Amazon to Flipkart to Ajio to all, you name it, and we are a leader in the apparel space. Every possible thing, we have a team to do our website. U.S. Polo, we have our own website, and that business is really growing well. It's getting more and more established. So I mean it's a wholehearted 360-degree investment behind online business, because we believe in that business. And we believe that as consumers go more online, we at AFL should also be with the consumers.

Aniket Shah: Okay sir. Thank you. That’s all from my side.

Moderator: Thank you very much. The next question is from the line of Dhiraj Mistry from Antique. Please go ahead.

Dhiraj Mistry: Congrats on very good set of numbers. So sir, my first question is regarding capex and the capital allocation. So what kind of capex, so I understand that a large part of Arrow and Flying Machine would be done through FOFO model, but there are some element of COCO expansion as well. So what kind of capex we would be doing over the next 2 to 3 years period? And how do we see that the free cash flow generation post that, the utilization of that, whether we will be doing for the more of debt payment or we would be rewarding shareholders with dividend?

Girdhar Chitlangia: Girdhar here. We have cited in the past that our capex will be in the range of INR 90 crores to INR 100 crores. And as Shailesh mentioned earlier in the call, we always have an asset-light model. So most of our expansion happens through FOFO model. Of course, we have certain maintenance capex, which we have to continue to do towards IT and some MBO assets.

As far as your question on the utilization of the surplus funds, I think our first priority will always be to pay down our debt. And then that's the objective over the next couple of years as of now.

Shailesh Chaturvedi: Just to add to what Girdhar said, in terms of deployment of the capital, see, we are a growing company. In first half, we have grown close to 10%. And we use our capital to grow the business. And that's the first principle that whatever capital available, we want to use it for the growth fund.

And second is that after that, we want to pay down the debt. And you've been seeing that debt is coming down and that those 2 strategy of funding the growth and then secondly, paring down the debt, these are the 2 main uses of the funds available.

Dhiraj Mistry: Got it. And sir, when do we expect that our company will become debt-free?

Shailesh Chaturvedi: See, the way the business is generating cash, and we are very confident that in an asset-light model for a certain growth that we have, the capital needs are not that large. So we will obviously be able to fund the growth. And hopefully, we'll have enough money left to draw down our debt levels.

And at the current level of the net debt that we have, I think in 2 to 3 years, surely in 3 years, we will sort of see a point where we'll be either 0 debt or a nearly 0 debt company. And our focus is on the current 5 brands. We want to grow those brands to their potential. And then after that growth of these 5 marquee brands, we will pay down the debt. Maybe in 3 years, 2 to 3 years, we should be in that situation.

Dhiraj Mistry: Okay. And second, in terms of our profitability guidance where particularly for 2 brands, Arrow and Flying Machine, where our aspiration was to bring improved profitability of Arrow and, let's say, mid-single-digit profitability for Flying Machine. How are we in that terms in that lane?

Shailesh Chaturvedi: So I'll break down into 2 parts: at the AFL level and then at Arrow and Flying Machine level. So our guidance is that we want to improve our EBITDA margin by 100 basis points every year. We've been doing better than that, but we still see juice available for us for the next 3 years to grow. We are at a 13.3% EBITDA in the current quarter, and we are in that zone of 13% to 13.5% EBITDA. We should be able to grow by almost like 100 basis points every year, 300 basis points in 3 years.

So that's the guidance at the AFL level. And that guidance is also assuming a higher EBITDA growth in Arrow and Flying Machine, which are at a lower profit trajectory currently. And we believe that those brands would actually increase their EBITDA by 200 basis points and not just by 100 basis points.

Now that's the stated objective, and we are very confident, and we are very committed that these two brands will grow, because if you look at our portfolio, Tommy and CK has a certain high profitability. U.S. Polo also is a double digit. And it has very good momentum and if you look at quarter 1 and quarter 2, both quarters, U.S. Polo sales and EBITDA has grown in double digits. So it's got a very good momentum at large scale of INR 2,000 crores, nearly INR 2,000 crores. And we continue to grow very, very rapidly both sales and profitability in the near term.

Then what leaves is the Arrow and Flying Machine. We believe both the brands need some rejig, and we have done that and have explained that in the previous calls, what we're doing with Arrow to make it even more cool. Flying Machine, you've just seen this, Orry initiative, what we are doing. And we're seeing the green shoot of that.

So from the low single-digit EBITDA that we see, we want to see them in the mid-single-digit EBITDA, some part of efficiency, higher growth, better sell-thru’s. I think also the scale because both the brands are very subscale in terms of number of stores, in terms of size of the business, where they are between INR 500 crores to INR700 crores.

And we need to take them to INR1,000 crores, and we are committed to that journey. Arrow is slightly ahead in that journey from Flying Machine. And we believe that Arrow will hit INR 1,000 crores sooner and will have a certain EBITDA profile, which is in mid-single digit and hopefully higher than that. And FM will follow that trajectory in scale build up and efficiency build up so that both the brands should grow their EBITDA by at least 200 basis points per year. And we are committed. We are working very hard towards that.

Dhiraj Mistry: Got it. And sir, in terms of brand-wise growth that now U.S. Polo has crossed, INR 2,000 crores, NSV. Also these PVH brands, Tommy and CK - the base is becoming high. Can we expect that they would continue to grow much faster compared to Arrow and Flying Machine? Or the growth would now be largely led by Arrow and Flying Machine going ahead?

Shailesh Chaturvedi: See, I'll break down into 2 parts, one for Tommy, CK and U.S. Polo and second is for the Arrow and Flying Machine. We believe we have a fantastic growth engine. All of them are quite sort of warm and revved up. And there's no reason why Tommy and CK should not grow. I see Tommy becoming INR 1,000 crores plus first international premium brand to reach that mark. It's growing really well in the last 3 years. If you see post-COVID, growth has been fantastic in Tommy Hilfiger and Calvin Klein. So I don't see why they will not grow.

And U.S. Polo has such fantastic momentum right now that the energy is quite palpable in a way. And all the growth engines, whether like-to-like growth, square foot expansions, growth of adjacent category, premiumization, renovation and digitalization, all are working for these 3 marquee market-leading brands.

So they should continue to grow at our guidance of 12% to 15%. Markets are clearly muted, but as the market improves and as the like-to-like improves a little more, I think all these 3 brands which are market leaders will continue to grow. Probably sometimes we've seen in our career that the stronger brands grow faster actually at times, so they benefit.

Market shares are not that high in India for the big brands, so it's very fragmented industry. And there's no reason why these 3 brands can't grow at the guidance that we have given in 12% to 15% as the market improves. That's the part about Tommy Hilfiger, Calvin Klein and U.S. Polo.

Coming to Arrow and Flying Machine, we believe there are subscale, and there are opportunities to open more stores. Some of the competitors have higher number of stores. And they should grow faster than the other 3 brands that I mentioned. So while the other 3 brands will also grow in double digit as the market improves, but the Arrow and Flying Machine will grow faster.

And it's very important to grow at a faster pace to reach the profitability metrics that we're looking at. And the scale leverage will also be important to make these brands adequately profitable. So I see all brands will have a growth path. But Arrow and Flying Machine should grow faster.

Moderator: Thank you. The next question is from the line of Devanshu Bansal from Emkay Global. Please go ahead.

Devanshu Bansal: Congratulations on a very good quarter. Sir, I wanted to understand. You've delivered about 4.5% retail LTL in Q2. So just we are hearing various commentary across players where they're indicating September was really good; July, August were bad. So if you could just talk about the performance for you across the months in Q2? And also, if you could highlight the festive trends in Q3 so far.

Shailesh Chaturvedi: So if you really see my commentary, I mentioned that we started July, August with growth in the EOSS. See, what happened if you look at spring, summer, our sell-thru was better despite markets being very soft. So we delayed the EOSS to end June. So all the entire energy of EOSS, we got in July.

So we got good growth in July and early August because the EOSS business was good, and we grew quite well in like-to-like in those months. After that, we've seen growth in September because the season preponed this time and the Diwali date is earlier. Also the online tower events were earlier, so a lot of consumers were looking at shopping. Shopping was in their mind.

And I also see that our rigor on retail, the way we have launched the new season, the quality of visual merchandising, very scientific assortment of our merchandise, you know that we've been working very, very hard to improve our retail shopping experience, both online and offline. And that's really helping us to grow like-to-like growth.

And as the season came in for the Pujo business in East India, we did good numbers. And then the Diwali numbers have started. So we had a good 4.6% like-to-like growth. Also, like I said in my opening commentary that we have spent a lot of money on this marquee, marketing events with Maharaja Pacho of Jaipur for U.S. Polo Association, with Hrithik Roshan on Arrow and on Orry with Flying Machine. So that also is keeping our brands very salient and we've also increased our advertising spend in this quarter by 50 basis points. So all that is really helping to grow the business at 4.6%, very close to our guidance of around 5%. So, we've done a lot of things and I'm quite pleased with the quality of execution of our team, and that's why we are at 4.6% like-to-like.

Devanshu Bansal: Very encouraging, sir. Sir, any qualitative comments on Pujo, etc.? Are the trends better versus what we have delivered?

Shailesh Chaturvedi: Pujo was good. Also Diwali business has picked up. We are seeing good, healthy like-to-like growth. But still, I would say, Devanshu, that it's still early days in the quarter. We have really 2 big months ahead. And we have festival calendar, we have winter season. So let's wait and watch. The current festive demand has been good. But let's wait and watch and see how the remaining 60-plus days pan out of this quarter.

Devanshu Bansal: Understood, sir. Last question. Sir, you have mentioned about improvement in channel margins, right, across all channels. So if you could just help me put across retail, online and wholesale, what are the key initiatives that we have taken to sort of help us drive margin gains across channels?

Shailesh Chaturvedi: See, first of all, there is a good channel margin improvement across the channels, across the brand. So a large part of our 110 basis improvement in EBITDA, it comes from higher channel margin.

That's also you'll see at the back of our COGS improved by 50 basis points. So that's helping the channel margin. Also, there is a growth, when you have a 4.6% like-to-like, it gives you better efficiency on your sellex of the store, etc. So that's also helping, because we have a good growth, we have a good like-to-like growth, and we have almost 50 basis points of improvement. And that's sort of flowing into higher channel margin.

Coming to specific to the channel expenses, we've seen improvement in manpower cost in some channel like department store where we pruned down the tail. So the inefficiency has come down there. We also looked at a lot of supply chain cost improvement. We looked at margin structure with some of the partners. So we have done many things in this quarter to chase that efficiency in expenses in the cost control, and that's really working well. And that's also flowing into channel margin.

Devanshu Bansal: Understood. Lastly, sir, this EOSS, which majorly for this year, it was in Q2. Last year also, was it in Q2? Or that was distributed between Q1 and Q2 both?

Shailesh Chaturvedi: See, if I look at June to June, this June, we had fewer EOSS days than we had in the June'23. We had got more EOSS business in July this year compared to we had seen in July '23.

Devanshu Bansal: So this margin improvement is despite higher EOSS business in this quarter, right?

Shailesh Chaturvedi: Yes, the impact of the EOSS is typically in the discounting. But our sell-thru's are good, so we've been very tight. So we made sure that our discounting is under check, and it didn't have a material impact on our GP. So a lot of the cost efficiency has gone down into EBITDA improvement.

Moderator: Thank you. The next question is from the line of Rajiv Bharati from Nuvama Wealth. Please go ahead.

Rajiv Bharati: Sir, since your retail business has gone up Y-o-Y, you mentioned that on the online side also B2C has gone up. I wonder why the gross margin has not increased. And because what we are hearing from some of the competitors are that they have seen gross margin improvement on a Y-o-Y basis

Shailesh Chaturvedi: Rajiv, if I look at GP as two parts, one is the channel mix impact. Every quarter, you see based on the channel mix, the GP moves from close to 50% to close to 55% based on the channel mix and other is the efficiency. That's what you do on your COGS or on your discounting or on your channel mix.

So if I talk about first efficiency, even in this quarter, while the number looks flat at 50.4%, there is an improvement. I mentioned just now that our discounting is under check. And also there is almost 50 basis point increase in COGS, which actually should deliver a higher COGS fundamentally at the operating level by 50-60 basis points. But we have seen a channel mix change here because, for example, online B2B, that business, overall online business has grown faster than the other channel. And typically, that business has a lower GP. While it has very good channel margin and it has very good EBITDA, but at a GP to GP level, that business tends to have a lower GP. So that share has gone up in this quarter.

So, because of that, the GP, there's a compensatory factor there, the channel mix because of certain channels with lower GP growing faster have compensated or taken away the gain that we saw from discount controls and for 50-odd basis point improvement in the COGS, that efficiency.

But all that has flown into the channel margin, Rajiv. So if you really look at this whole 110 basis point improvement in EBITDA, it's also flowing from COGS efficiency, discount control. And you can look at channel mix in one way, but all the channels have improved their margin in this quarter, and all that is going into the EBITDA. I think you should look at improvement in channel margin, improvement in EBITDA and the COGS improvement, just that there is a compensatory factor of channel mix.

Rajiv Bharati: Sure. The other part is this 81,000 square feet addition on a net basis. In terms of store count, what is that?

Shailesh Chaturvedi: See, today, at the end of H1, we have 954 store count. And we opened 27 new stores in this quarter. And in our business, Rajiv, we are focusing a lot more on square foot expansion because we are cutting down stores which are small, less profitable, less relevant in the modern time. So our closure tends to be a high number because we're cutting down a lot of these small stores, which are losing relevance. But we are opening a lot of large new stores, which net-net, we add a lot of square footage.

So in Q2, also our net square foot addition is 36,000 square foot and total for H1 is 81,000. I mean it's more than what we had opened in the whole of last year, and we opened that much square foot in the first half. And like I said earlier in the call, we have put a lot of muscle for store expansion, what is known in the industry as BD, business development. And we have more number of people, our formats are ready.

So that engine is now accelerating, and we expect that this accelerated square foot expansion will continue in the times to come. And we are committed to a 15% CAGR, which will be more like close to 1.5 lakhs square foot. Store, if I take the same number of stores to be 150, but the store count can be less or more, but it's the square foot expansion will be close to 1.5 lakh square foot. We already opened 81,000 square feet in the first half of the year. And the rate and the pace is still accelerating.

Rajiv Bharati: So I hear you and very heartening to see. Just that what was that 27, because it's a gross number, and it's 57 is the gross number for H1? What is the net number because I somehow feel that your incremental stores are, what, 3,000-plus square feet now versus like 1,100 historically?

Shailesh Chaturvedi: I think the number, Rajiv, that I want to say is that the 36,000 square foot is the net addition in Q2, and 81,000 square foot is the net addition in H1.

Ankit Arora: And Rajiv, what you just said, you are absolutely right. So what Shailesh also mentioned is we are closing down smaller-sized stores and opening slightly larger-sized stores. And of course, in H1, as Shailesh spoke about in his commentary and answer to one of the participants, that we are opening large marquee stores of U.S. Polo likes of Banjara Hills or Jayanagar, Indiranagar, Goa, Jodhpur. All of that are significantly marquee ground plus 2 buildings with full presence of U.S. Polo, all the categories. So that's also having an impact on this 81,000 is how one should read this data.

Shailesh Chaturvedi: And I must also say that 2% to 3% of our distribution, we always close on a regular basis because some part of our distribution becomes less relevant or new mall takes away from old mall, some high street lose to another mall. So it's a very dynamic situation.

So I think the main factor is how much net square foot we've added. And we've added 81,000 square foot in H1, and we are accelerating that square foot addition. And we should hit close to our target of 1.5 lakhs square foot in this year.

Rajiv Bharati: Sure, sir. So one last bit. With regard to the first question, which was asked. So the tax number which you have in your, let's say, the consol number for 6 months. From the last couple of years, the tax is largely attributed to PVH, right? And if I see, let's say, total tax of 6 months this year versus last year, it's grown by 4%.

Now this is growing under, let's say, the 9% growth for the entire company in the first half. So PVH portfolio, because you mentioned that it is growing, let's say, at par with or probably better than the company level average, this 4% growth on the tax element looks lower. I mean the other participant asked on the minority interest end. Can you comment on that?

Ankit Arora: Sure, Rajiv, Ankit here. So a couple of clarifications. One is H1 to H1, when you are comparing, you just need to look at it because we received dividend from the subsidiary in the last 2 years, which is FY24 and now FY25. So there is a component of business income coming from that, and that's also impacting the tax outgo.

Having said that, PVH subsidiary, of course, continues to outperform well for tax. All of that largely is coming on account of it. And then on the other side of it, we are having, of course, the brought-forward losses on which we are getting a tax shelter. And as and when we'll continue to kind of generate profit and which is what we are now doing and accelerating that pace, you will see our overall from a cash flow standpoint, the tax outflow will be marginal on that account, except the non-PVH subsidiary part of the business.

Rajiv Bharati: No, Ankit, that's fine. But the absolute tax element, the dividend was 49 last year, 50 this year. So that incremental number has not changed. So the total is basically in the same ballpark. The tax element should be negative. I mean, I'll take it offline, but that 4% number is it's too off from the aggregate number.

Ankit Arora: Sure. We can connect offline, and I can explain the mathematics on that. No problem. Thank you.

Moderator: Thank you very much. As there are no further questions, I would now like to hand the conference over to Mr. Ankit Arora for closing comments.

Ankit Arora: Thank you, everybody, for joining us on the call today. If any of you have any further questions, please feel free to reach out to me, and I would be happy to answer them offline. Wishing all of you a very Happy Diwali and prosperous year ahead. Thank you so much.

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