Q3 FY2025 Earnings Call Transcript – Feb 6, 2025

CORPORATE PARTICIPANTS

- Kulin Lalbhai – Vice Chairman & Non-Executive Director
- Shailesh Chaturvedi – Managing Director & CEO
- Girdhar Chitlangia – Chief Financial Officer
- Ankit Arora – Head, Investor Relations and Treasury

Moderator: Ladies and gentlemen, good day, and welcome to Arvind Fashions Limited Q3 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 Rutuja. Hello and welcome everyone and thank you for joining us on Arvind Fashions Limited earnings conference call for the third quarter and nine months ended Dec 31, 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 third 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: Thanks, Ankit. A very good afternoon to you all. Thank you for joining us for the Q3 results. AFL delivered yet another quarter of strong performance in muted market conditions. Our sales grew by around 7%, led by strong like-to-like growth of 11%, helping us deliver our highest-ever EBITDA of INR 174 crores with an improvement of more than 110 basis points in margin terms and thus aiding a 71% growth in our PAT. Our bottom line has more than doubled in the YTD period.

Our focused interventions like higher advertising, increased square foot expansion, superior customer experience, and product innovation, coupled with celebrity collab collections have led to an acceleration of our retail channel growth every quarter this year. We had around 15% growth in the retail channel in quarter three. This is a clear reflection of our brand strength with our consumers, which has helped us gain market share in the industry.

We continue to maintain tight control over the balance sheet KPIs with our gross working capital days remaining stable. As a result of this, another highlight this quarter is a strong improvement in our return on capital employed, which has now crossed 19%, a significant shift in the last two years. This gives us confidence to now take it beyond 20% in the medium term, a target which we had set for us last year.

Moving ahead with our Season '25 launch, we remain optimistic of growth momentum compared to the quarter three levels while continuing to stay committed to our mantra of profitable growth.

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: Thank you, Kulin. Good afternoon, Girdhar, Ankit, and everyone on this call. With NSV of INR 1,203 crores and EBITDA of INR 174 crores in Q3, AFL has registered revenue of INR 3,431 crores in nine months of FY25, indicating a growth of 8.5% in this year. With EBITDA value of INR 467 crores YTD, the EBITDA growth in this year is nearly 18%. The revenue growth in Q3 is 7% and EBITDA growth in Q3 is 16%.

Q3 started with Diwali business and above-average Diwali, which was followed by a very good trading in both the wedding season and in winter season. There was bunching of wedding towards winter, and we saw good trading. With the early setting of winter by 10 to 12 days this year, we saw higher full-price business of winter wear in November and December.

We resisted the temptation of participating in early EOSS with industry and with overall controls and better market conditions and better execution, our discounting reduced by 1%. With lower discounting and richer channel mix in favor of direct channels, retail and online B2C, Q3 GP went up by 160 basis points to 55%.

The GP number for YTD is 53.3%, an increase of 80 basis points. With improvement in GP flowing into EBITDA, backed by tight expense control, but higher marketing investment, the EBITDA in Q3 grew by more than 110 basis points and reached 14.5% of NSV in Q3. This quarterly EBITDA of INR 174 crores is the highest-ever quarterly EBITDA for AFL.

Double-digit like-to-like retail growth in Q3 at 11% is a key highlight of this quarter and is a reflection of the strength of our brand portfolio. This double-digit like-to-like growth is spread across brands, and it is really heartening to note that all five brands have been re-energized even in these muted market conditions and have delivered healthy performance.

While we have continued to execute our retail promise with a better quality shopping experience through knowledge transfer from international standards, I want to focus on marketing investments. In this year, we have continued to up the marketing to have a sharper visibility for our brands under muted market conditions.

Let me focus on marketing investment through local celebrities. Very rarely will you come across the portfolio where we have three of the most iconic brand ambassador tie-ups happening in the industry at the same time. We invested concurrently in Disha Patani for Calvin Klein, Maharaja Padmanabh Singh Pacho for the US Polo Association, and we had the most iconic Orry tie-up with Flying Machine, which took our Gen Z consumers by storm.

Another important aspect of these tie-ups was the launch of one-of its kind collab collection where our brands work with these important celebrities to create very differentiated upgraded capsule collection to fuel our premiumization drive. Both the Orry collection for Flying Machine and Maharaja Pacho collection with the US Polo Association were big hits, and we will continue to roll out more collections in these lines.

With these upgraded offerings, we got very good response from consumers and were able to reduce discounting. We also saw a healthy discount reduction in our direct B2C online business, which also saw very good traction due to these heightened marketing investments.

In FY '25, we have taken decisive strides in building a strong momentum of highly profitable growth with our direct channels, which include brand stores, websites, and online B2C marketplace business. There's a nearly a 4% increase in the share of the revenue mix for direct channels, and their share has reached nearly 55% this year.

This is in line with our medium-term vision of taking this number to maybe two-thirds of our business. There's a healthy acceleration of growth in the retail channel quarter-on-quarter, and the growth has moved up from single digit in Q1 to now very healthy mid-teen level.

The support engines for retail of like-to-like growth, square foot addition, and renovations of stores have reached the momentum where this mid-teen growth of retail is very likely to sustain and may even improve further. Similar is the case of large growth in B2C online channels where there is a large pivot away from wholesale B2B.

Another heartening development is a significant improvement in the margin profile of these direct channels, helping our mantra of profitable growth. The margin profile has improved because of higher GP in direct channels and continued control on discounting through our sharper execution.

We are very sure that growth engines on direct channel will continue to fire going forward. While the underlying growth in the wholesale channel is in the range of 8% to 10% growth, we have seen a quarterly moderation currently partly due to the exit from some department store formats and de-stocking in muted market conditions as per our hygiene.

There's also the impact of higher billing in Q2 because of the early festival calendar this year. While we want to strategically de-scale B2B online wholesale channels, the other wholesale channels are likely to get back to underlying growth potential of 8% to 10% growth in the near term, even in this sluggish market.

There's a lot of juice in square-foot expansion in many of our formats. Premiumization is working well and adjacent categories are growing well with both MBO and department store channels. Recent tax cuts announced in the budget are also likely to spur demand in these channels where distribution goes very deep, and we are very hopeful of this wholesale business moving back to its underlying potential.

Coming to growth drivers. The retail channel has grown well at 15% backed by both growth drivers of double-digit like-to-like growth as well as healthy square foot expansion. Adjacent categories have continued to grow at a faster pace with a doubling of business in womenswear and mid-teen growth in innerwear.

Footwear growth has got impacted because of BIS implementation, which has impacted inventory levels and assortment. Kids business is a very large growth opportunity, and we are piloting new ways of growing this piece, and we are likely to see strong traction ahead in this business.

Coming to the online business growth engine, we have discussed a strategic pivot towards online B2C channels in order to better manage consumer experience and control discounting. With this focus, B2C channel is growing handsomely. The growth in B2C will more than compensate any likely decline in B2B and overall online business is likely to grow close to 10% profitably with a healthy revenue mix of around 25%.

We've also engineered sharp cost management in online business and our channel margin profile is seeing very good improvement here. On brand side, USPA business has very strong momentum and with very special investment put behind this marquee brand. Both Arrow and Flying Machine have improved their profitability profile further through double-digit like-to-like retail growth. The premium portfolio of Tommy Hilfiger and Calvin Klein is leading our premiumization drive with significantly higher growth in teens and best-in-class profitability.

We continued our sharp focus on balance sheet de-leverage, ensuring tight control on working capital and Q3 saw further 5 days reduction in inventory versus last year. With inventory value coming down by nearly INR 40 crores over the September'24 number, inventory stock turns were more than 4 turns.

Debtor value also came down sharply by nearly INR 180 crores post festival trading and NWC days remain at healthy 60 days. 8% EBITDA growth YTD this year is flowing into PBT growth of 44% and PAT growth of 133% for continuing businesses. We are seeing good FOCF generation at AFL. And with our asset-light model and very tight balance sheet control, we are hopeful of an acceleration in FOCF generation.

With the recent tax cuts announced in the budget, we are hopeful that there will be positive economic indicators, helping businesses to grow well. In the medium term, with good priming of all growth engines, we hope to up the growth rates the way we have done in FY '25 compared to growth in FY'24. Our aspiration of 12% to 15% revenue growth stays, and we are hopeful that an improved consumption scenario with recent tax cuts will aid our efforts.

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

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Priyank Chheda from Vallum Capital.

Priyank Chheda: Solid set of performance and congratulations team for the great numbers. Shailesh, my question is on online B2C versus a total channel growth of online and others. So there has been a divergence. I mean, we have been witnessing that for now the last 3 quarters. So when do you think that the transition within online, which is towards B2C, do you think that will get completed and the whole channel should grow as in line with online B2C channel growth?

Shailesh Chaturvedi: We've been talking about pivoting away from B2B to B2C to better manage the consumer experience, better assortment, online exclusive, use of analytics better, lesser discounting, and more controlled discounting. So that's the plan. And if you really look at this journey, which peaked in COVID times and then after that, the correction happened and now the business has started to grow.

So we have seen that our online business has started crossing the pre-COVID peaks and have started growing healthily. We are very strategically continue to decline our B2B channel, and it may decline by 10% to 12%, which is a planned decline. But the B2C growth, now this quarter, the growth was 20%, and it will continue to gain the share of overall online piece.

And we are now seeing that online business will grow more than 10%. And that's why the whole transition from B2B towards a higher growth of B2C has started and now reaching a point where any decline of B2B is able to be compensated easily by B2C growth and overall online piece has started to grow. Like I said in my opening remarks, we hope that in the near future, it will grow at around 10%.

Priyank Chheda: Right. So what would have been this mix now reached where we would be -- what share within B2C within online, what would be B2B and B2C share now?

Shailesh Chaturvedi: It was almost 50-50. And now see, I'll just give you a little bit of a background where in the COVID times, if I look at the data, it was largely B2B business. Slowly, the pivot has happened in the last 6 to 9 months, the B2B and B2C business were equal. And now we are seeing that B2C is going to become larger than B2B.

And it will be able to take away any decline of 10% to 12% business decline in B2B and with this higher growth. This year growth in this quarter is 20%. But if I look at the annual number, the growth is even higher. So that 10%-odd decline in B2B, a higher 20%, 25% growth in B2C will be able to compensate more because both are now more or less equal. And if I look at the next 6 months, B2C will be a bigger business, maybe two-third and B2B will become one-third.

Priyank Chheda: My second question on the wholesale, which you alluded that you exited some large department store, was it this quarter? Or has that been a gradual exit that we should read when it comes to 9 months?

Shailesh Chaturvedi: See, there was one partner decided to shut down the format. We didn't exit. A very large chain both in the value format and in the premium format decided to shut. I don't want to take the name here, but they decided to shut down, and this happened almost a year back then, but the 4 quarters of the business, we showed decline because we had the past data. But as we go forward, that impact will not be there in our sales figures.

Priyank Chheda: So the broader question that I was asking was on the wholesale as a channel. If you had to, of course, exclude this one-off, what would have been the growth? And has that been reflected when it comes to the sales of a brand level, which is Arrow, which has a higher salience in this channel?

Shailesh Chaturvedi: See, if you look at my opening commentary on wholesale, we believe the inherent underlying growth potential in the near term is 8% to 10%. Now if I break it down into, let's say, 3 parts, one is the online B2B, other is the department store and the third is in terms of the MBO channel. Now if you look at B2B, there is a strategic de-stocking we want to pivot away and the B2C will start growing faster and we'll be able to absorb that decline and we grow online that I just mentioned earlier.

The second point is in the department store channel. Again, here, the one-off impact of the closure of one big chain is not our decision. The chain decided to shut down. It impacted the whole industry. Also, the Q2 billing because Diwali was earlier a little higher. So it's a one-off thing. But if I look at the consumer sales in department store, if I look at what we call tertiary sales, the like-to-like growth in that channel is very similar to our retail growth of double digits.

So it's not that the channel is not performing. And I also mentioned that the recent tax cut might help the wholesale channel a lot because the distribution goes very deep. So in the department store, our consumer sales are good, healthy. Our market share, our rank is improving, and we are a leader in that channel.

So it will continue to grow. Markets will become slightly better, then our growth will be there. I'm very confident that in the near future, the department store will grow at the inherent underlying growth potential of 8% to 10%. And comes the third is the MBO channel. Again, some of the reasons of early billing, etc. It's a very important channel. It's been a growing channel.

And I also believe a lot of our square foot expansion is ahead in our brands like Flying Machine, Arrow, adjacent category, kids. There is a lot of scope of further expanding square footage with the MBO channel, and we are a market leader in MBO channel, also very good performance overall numbers, clearly market-leading position in MBO channel.

So that business also will grow at 8% to 10% in near term. Other than B2B, there is a planned destocking, both the other wholesale channels should grow immediately at 8% to 10% in the near future.

Priyank Chheda: Just last question from my side. On the Flying Machine, you have clearly mentioned and very heartening to know that it delivered a strong retail like-to-like growth. And when I have to also read through Arrow, we have been focusing on accelerating EBOs. So now on both these brands combined, is that the core focus which when it comes to only B2C or because these brands were heavy on B2B as well at least Arrow, is the game plan around completely focusing on B2C and then non-focusing B2B when it comes to these 2 brands?

Shailesh Chaturvedi: See, as far as both the brands are concerned, both the brands – Arrow and Flying Machine, have delivered double-digit like-to-like growth in this quarter and in this market, and they're gaining market share in key department stores and other portals. So we are very happy with the progress both in Arrow and Flying Machine. Now coming to the channel preferences, I just mentioned that I see scope of expanding square footage in MBO channel and department store further for both Arrow and FM.

Arrow is real subscale right now in terms of distribution. So not just MBO or the department store, but also EBO. We see the possibility of a larger square foot addition across the channel in Arrow, be it export, be it MBO, be it department store, and surely in EBO channel. And at the company level, we will focus a lot on direct channel, and we are very competitive in execution of that channel. GPs are better. Overall growth is very healthy. So Arrow and FM will benefit from that direct drive and B2C and EBO. But both FM and Arrow are so under-distributed in many ways, subscale in many ways that we will not lose sight of further expansion in wholesale with MBO and with department stores for Flying Machine and Arrow and Flying Machine also the doors open with some value department stores, and we are doing very good numbers with the value department stores.

So there's even more opportunity for square footage for Flying Machine as well. So I'm not saying that we will de-emphasize. We will put all our hearts and put large square foot addition across the channel for Flying Machine and Arrow.

Moderator: The next question is from the line of Prolin Nandu from Edelweiss Public Alternatives.

Prolin Nandu: Quite heartening to see 11% LFL growth. So congratulations on that. So I just want to summarize your opening comments as well as what you probably answered and correct me if I'm wrong, it seems like as we enter, let's say, Q4 or FY '26, we have a very balanced approach in terms of our channel and also in terms of our brand, where all the guns are firing.

Correct me if I'm wrong, this 11% retail growth was contributed -- I mean, there was a double-digit growth across all your brands with Flying Machine and Arrow also kind of contributing to this growth. So my question is, is it the correct assessment that as we enter FY26, both in terms of brands and channels, the overall LFL growth or this 8% to 10% growth that you have mentioned is going to be very balanced across channels across the brands?

And what will that do to our margins because Arrow and Flying Machine, if I'm not wrong, were dragging the margins, overall company level margins? So is it fair that that drag will no longer be there as we enter FY26?

Shailesh Chaturvedi: If I take one-by-one question on like-to-like growth, you're right. The like-to-like growth in retail of 11% is across the brands. All brands have grown double-digit. If I look at the department store, consumer business, tertiary, they are good growth across our brands. So that's true. Now the focus on like-to-like, if I look at our guidance, we are guiding that we are looking at around 5% to 7% like-to-like in full price growth.

If I look at the full-year number, our like-to-like growth, while in this quarter is a bumper 11%. But at a full-year level, the like-to-like growth is between 6% to 7%, which is slightly higher than our guidance. So we are doing well. Our marketing efforts, our execution, our product lines, quality improvement is all working well for us.

Now what happens to the margin? So we are expecting that on EBITDA -- our guidance is that we will continue to grow by at least 100 basis points going forward. This year also, if you really look at, we have grown our EBITDA by 18% and by 110 basis point YTD this year, and we hope that we will continue to -- our guidance is that we'll continue to grow our EBITDA by at least 100 basis points.

And as you rightly said, the contribution of Flying Machine and Arrow will have to be higher. So if the overall company has to grow at 100 basis points, the Arrow and Flying Machine growth -- EBITDA growth has to be higher than 100 basis points. That's what our plan is because there is a scope to take that forward. It takes time. The work is in progress.

We are very, very happy with the progress in Q3 and how the Arrow and Flying Machine have delivered in Q3. And that journey will continue to grow EBITDA by 100 basis points and a large part of that gain will come from GP where control on discounting, sourcing efficiency, our control on sellex and also the scale leverage.

And especially in Arrow and Flying Machine, we expect the scale leverage to be higher than the overall company because there is a chance to improve the scale faster in Arrow and FM. So we will benefit from GP increase and economies, the scale leverage, and control on expenses. So we will definitely believe that we'll be able to grow our margin by 100 basis points and with higher than that number for Arrow and Flying Machine.

Prolin Nandu: Sure. And just on Arrow and Flying Machine, right, do you still stick to your earlier guidance that maybe Flying Machine in terms of recovery is, let's say, a year or so away from Arrow? Or has this -- the marketing activity that you did with Orry helped you to lessen that gap versus Arrow in terms of recovery? Could you let me know where are both of these brands in terms of their recovery trajectory?

Shailesh Chaturvedi: Both the brands are on way. They are on track as per our plans. Arrow is ahead. And even with the Orry big success that we saw, Arrow will continue to have that edge because the effort we started earlier. FM, we have done a very large re-branding exercise from the logo to the new retail identity to the new product direction, new brand association.

So it's early days. We are very, very pleased with the early success, the green shoots we have seen, but everything takes time and our aspirations are very high. The standards that we want to establish are very, very high. So it takes time, but we are very, very pleased with the current journey of both Arrow and FM in terms of revitalizing these brands and making them profitable in a healthy way.

Prolin Nandu: Sure. And one last question would be on your retail expansion plan in terms of EBOs going forward. Now here also, we did some changes that we were opening much larger stores in some of our, let's say, for U.S. Polo, because the assortment and accessories and all require bigger space. So now that we enter FY26, how do you see the square foot addition for our retail space in FY26?

Shailesh Chaturvedi: So our guidance on square foot expansion is around 15% net addition. We are at around 1.15 million square foot as on date, and our guidance is to grow that at a 15%, so around 1.5 lakh net square foot addition every year. Our store count can change because we are, as you mentioned rightly that our store sizes are becoming larger.

Consumers are voting in favor of larger stores with better shopping experiences and some of our formats like Club A or U.S. Polo family stores have a very large footprint. So we will chase that square foot of 15% CAGR. And that's what we are working on. We have done a lot of hard work in the market to build muscles for business development. We have teams in the market the whole org is being developed as we speak, and we are happy with the progress. And we are also happy with the quality of execution of our stores. The new stores are tracking with good numbers. They are on plan. And we are very happy with the way the shopping experience is emerging from these new stores.

Moderator: The next question is from the line of Sachin Kasera from Svan Investment Managers.

Sachin Kasera: Can you update us on the progress on the footwear business in the first nine months and also some of the emerging segments like the womenwear and the kids wear in U.S. Polo and also the Club A that we launched, how is the progress there? And what are the plans there going ahead?

Shailesh Chaturvedi: Sure, let's start with the footwear. Footwear is a large business for us, and we are looking at strong leadership. We do large business in profitable double-digit EBITDA business in U.S. Polo footwear. Now because of the government regulation, what's called BIS, the import of footwear came to a standstill for a moment, and it impacted the inventory levels and the assortment.

So in some of our big brands like U.S. Polo and in Tommy Hilfiger, we saw a sharp decline in business. But that's behind us. Frankly, Sachin, now government has made a lot of progress. There is, again, I'm using the word green shoot because some of the new factories are now coming up. They're getting approved and also there is a larger production happening in India. So I would say the worst is behind us.

Maybe in three months from now, I would be a little more optimistic with a little more data because it's happening as we speak. So things are looking up. But if you look at the last nine-month data, we did lose business in footwear because of the lack of inventory there, but things are looking up.

We also have a retail concept in footwear called Stride, where the overall like-to-like growth is double-digit. It had a low single-digit because of the inventory situation, but it will come back. And inherently, our business is so strong and some of the categories like sneakers go so well with a brand like U.S. Polo, and we sell very large, millions of pieces of sneakers in U.S. Polo, and we’re leader in online and also a very large share of revenue of our store comes from the footwear business.

So it's a very healthy business, having temporarily external headwinds, but that's behind us, and I think things will only look up. In six months' time, it should be green again. As far as the other adjacencies are concerned, I mentioned in my opening comment, the womenswear has doubled on a small base, and it has done quarter-by-quarter. So that business looks very, very promising, both independently business on online, also within our own family stores.

And also, we started expansion into MBO channel with a dedicated womenswear space. So a lot of good things happening. We are very, very happy with the progress. We tied up with the celebrity Palak Tiwari, that association is going on well. So that business has taken off well and it's moving well, quite good.

Overall, adjacent category at a company level, the share is 20%. For U.S. Polo, it's even higher at around 25%. And that business is growing between 15% to 20%, much higher or almost double the growth rate of the company. So I think it's looking good, that business. Kids is another large piece, and we see a huge opportunity to build that. We are piloting something on U.S. Polo Kids store, the format, the product lines, and you'll see us come out. It's already a very strong business. We are a leader in that space. And you will see a little more traction in the kids' business going forward.

So overall, adjacent categories are driving the growth. Innerwear also in U.S. Polo, we have a good business, and the growth has come back very strongly through online business, through business in our stores. And that business is growing again in mid-teens, as I said in my opening comments, and growing with better margin profile.

So overall, adjacent categories are helping us the company grow faster, and the share is improving and growth rates are very good in this category.

Sachin Kasera: So when you say 20%, it includes footwear, womenwear, kids wear, and innerwear all put together or that's only the womenwear that you are saying?

Shailesh Chaturvedi: No, no. All the businesses put together. It's a very small business right now, Sachin. It's growing really well. The sell-throughs are extremely encouraging, but still it's just a one-year-old business.

Sachin Kasera: So the largest share would be the footwear in that emerging when you say 20%?

Shailesh Chaturvedi: Yes. So in terms of scale, it will be footwear, kids wear, innerwear, and womenswear.

Sachin Kasera: Sure. And any sense like what was the decline in footwear, more like 15%, 20% in the first nine months?

Shailesh Chaturvedi: No. See, there is a growth in footwear business. It's in high single digits. But this business, we have engineered for growing at more than 20%, right? So from the worst base now on that smaller reduced base, it's growing now high single digits. But we are not happy with the high single digits. This business has to grow at 20% minimum.

Sachin Kasera: And if you could update us on this Club A that we had launched, I think a couple of quarters back, the large format stores for the high street?

Shailesh Chaturvedi: We opened recently 2 large Club As, one at the Lucknow Airport, very, very good, almost 4,000 square feet, absolutely top quality in India. You will not find stores of that standard. We also opened on the High Street in

Surat. So now we have 3 Club A stores. And as we speak, 2 are under fit-outs. We have been still modeling, adding brands, removing brands, figuring out the right model to expand. But this has a huge opportunity, but we want to just do the modeling right and then expand.

Sachin Kasera: My second question is on the margins ex of PVH. From whatever math we can do, I think it looks like we have around 1% net margin ex of the PVH business. And from whatever various interactions, most of the brands are now either high single-digit or double-digit EBITDA margins? So it's not flowing through in the PAT margin. If you could give us some sense on why, despite having a high single-digit and double-digit margin at the brand level ex of PVH, the net margin is only 1%, 1.2%?

Ankit Arora: Sachin, Ankit here. So your observation is right. But if you really step back and look, see, it's a journey, which is what one would need to kind of understand. And largely, the drag was coming -- since you're talking about the bottom line was coming from Arrow and FM, but very, very heartening, and I'll put some data for everyone's reference, what you are referring to.

If you step back and look even in this quarter and the last quarter, our PAT, excluding minority interest, we have clocked close to about INR 30 crores PAT, which implies a more annualized run rate of north of INR 100 crores in some sense, if I were to kind of really take that. We did INR 28 crores in this quarter and about INR 30 crores last quarter.

Even in YTD, if you step back and look, excluding minority interest, our bottom line has more than doubled. It's grown at north of 130%. So yes, what you are saying is still about -- close to about a 1.5%, 2% PAT margin in that ballpark range going up. This quarter, like say, we did PAT, excluding minority, about close to north of 2%, which is on a INR 1,200 crores did about INR 28 crores. So yes, the journey is to increase the bottom line and as what Shailesh has spoken about at length earlier in previous participants' answers as well, is as Arrow and Flying Machine continue to kind of inch up and the kind of performance, which is what we have witnessed in Q3 is very, very heartening.

This number will accelerate only going forward, and we have demonstrated that over the last 4 to 6 quarters already. And this number is only going to accelerate further as we step into FY26 and FY27. And you will see that continuously happening quarter by quarter and in our year-on-year performance.

Sachin Kasera: My last question is around the 5 power brands. If you could just give a sense in terms of the first 9 months in terms of hierarchy, the growth pattern, like which was the highest growth, which was the second highest, something like that?

Shailesh Chaturvedi: Sachin, we don't share the brand-wise details. But I think if I look at whether it's like-to-like data growth, all the brands have done well, Sachin. I think what differentiate are the channels and the direct channels have grown faster than wholesale channels and across the brand. But overall, if I look at the brand profile, all brands have grown in profitability and in a healthy manner.

Sachin Kasera: So without sharing the percentage growth, if you could just give us a sense like which brands grew more than company average which grew below, at least give us some sense, that would be helpful. We are not looking at some specific number like 10% or 12% or 8%.

Shailesh Chaturvedi: In my opening commentary, I said that the PVH profile, the teen growth with high profitability and premiumization helping them the market leaders there. So that piece is growing faster, and it continues to grow at a slightly higher -- maybe significantly higher pace than the overall average.

But all brands have done well. I mean you look at U.S. Polo, it has such good momentum. You see the traction of U.S. Polo across channels doing so well. Arrow, FM have improved their performance. So some channels are not growing or growing. But at a brand level, I think all brands have been re-energized.

Ankit Arora: And Sachin, just to kind of just add a color on what just Shailesh said, I mean, looking at a percentage, right, I mean, while a brand might be slightly smaller in scale, may grow at faster %, but we’re focusing on all the brands to accelerate the growth trajectory.

Moderator: We now invite the next question, which is from the line of Avinash Karumanchi from Equirus.

Avinash Karumanchi: So I'm just trying to get a better view on the inventory. So this inventory optimization that's happening. I'm just trying to identify how much of this would be at the store and how much would be at the warehouse. So where exactly are we reducing?

Ankit Arora: So Avinash, all the inventory when we -- what we are looking at it is all on our books, and we have moved to our consignment business model in EBOs, which is what we have discussed in the past. So it's all the inventory which is lying on our books, and we don't really segregate because it'll be in multiple channels. We don't really segregate between which is lying in EBO and what will be in warehouse.

Girdhar Chitlangia: And the actions generally impact across all locations. I mean, while we try and say that we want to optimize a few channels, but actions generally impact most of the locations uniformly.

Avinash Karumanchi: Okay. I'm just trying to identify what would be the inventory turns channel-wise. So like optimization when you are speaking, so I don't need an exact number, but I just need a view, like how would the inventory turns at the EBOs be or the online channel be because they contribute for the majority of the inventory right? Rest of them is cash and carry. So that's how I'm trying to look at?

Shailesh Chaturvedi: But if you look at our inventory turns in the last 5-odd years, we moved from early three turn to above 4 turns across the channel, we have been able to move inventory turns up. And if I look at our aging of inventory, I look at the share of freshness in our business, it's good. And that's one of the reasons why our GP is going up really well because we have a very large freshness and where we don't need to discount, and our sell-throughs are very good across channels. So overall, that's why the inventory turns have really gone up from 3-odd now to 4.2.

If you look at the last 1 year, our growth have been more or less, with the same inventory value, and we've been growing now this year at 8.5%. But if you look at increase in the value of inventory, it's very, very small. So we've been able to grow business at a certain pace, high single-digit with, more or less, the same inventory value.

Avinash Karumanchi: And one more question is on the storefront. So the number of EBOs, while the gross addition was higher, the net addition was not significantly there. So in which brand are we seeing more and more closures coming in?

Shailesh Chaturvedi: No. I mean, see, what happened is that we had a very large 4 malls coming up with large square foot, which would have added in October before Diwali, but the malls got delayed and now it's going to happen in April, May. So that's the reason. But if you really look at the total gross addition of square footage, I mean, this year is more than 1.5 lakh.

We've never grown -- we've never opened so many stores in a year. So that large expansion is happening. We also had to shut some stores. It's a part of life, but because of the delay in the mall, the number looks like that. Also, I think we are at the fag end of that closure now. Whatever we needed to close, most of those stores have been shut down.

Basically, it's not a brand level, it's more often the format, the smaller size in some types of markets, they become loss-making or not strategic where we want to open large stores with car park where the consumer get better experience. So we are shutting down smaller format in certain kind of markets across brands.

Some of the outlets, we move from single brand small outlets to our big-sized Megamart format, 4,000, where are economies are much better. The shopping experience is much better. So it's not so much the number of stores, but we're also focusing largely on the square foot, and we're cutting down small loss-making stores and opening very large, high-quality, profitable stores.

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

Naysar Parikh: First question on retail. For our 11% LTL growth, what's the volume price? Can you talk about that?

Shailesh Chaturvedi: See, the bulk of the like-to-like growth has come from the volume growth. Majority.

Naysar Parikh: And you spoke about this earlier, but on Arrow and Flying Machine, when we look at FY26, from a profitability perspective, can we expect them to be PAT positive? How should we think about it? And secondly, are all the drags with regard to some of your royalties etc., for the earlier brands, is that out, or is there anything still there in the financials?

Shailesh Chaturvedi: See, as far as the second part of your question, discontinued brand, there's no impact on the P&L in any way. It's all out. It's cleaned up. Now the business is the continued business of these 5 brands and their format that we work on.

On first part, so like I said, Arrow and Flying Machine is a journey, and they are growing at a faster pace in profitability. And they are reaching a point where the drag is less. Now whether to reach PAT positive soon, but that journey will happen. That block of FM plus Arrow has to become PAT positive in the near to midterm. And based on the market condition, could happen 6 months earlier, sometimes it could happen 6 months late, but we are very happy and pleased with the progress on the improvement and on this journey of profitable growth for both Arrow and Flying Machine.

Moderator: The next question is from the line of Rishikesh from RoboCapital.

Rishikesh: Sir, could you share what EBITDA margins are we doing for Flying Machine and Arrow? And also a follow-up on that, how do we see our PAT post minority interest on our EBITDA margins scale-up for Flying Machine and Arrow? Currently, blended terms, they are around 57%, 58%. How do we see that going ahead?

Ankit Arora: So Rishikesh, to answer your first part of the question, we will not be able to disclose brand-wise profitability and PAT margins. That's something which is what we don't disclose. Pertaining to your second half of your question, as to what I said earlier in response to one participant is if you look at our journey on PAT, excluding minority interest, it has been continuously going up.

And we expect that journey to significantly accelerate moving forward as to what you would have seen in YTD period of FY25 as well, where our PAT, excluding minority has grown by north of 130% and it's largely contributed by, of course, U.S. Polo gaining momentum and doing extremely well, that's a very, very profitable brand. And of course, the drag on the bottom line on account of Arrow and Flying Machine because of their intrinsic EBITDA profitability going up and hence, the drag on PAT coming down and hence contributing to more bottom line, excluding the minority interest.

Moderator: The next question is from the line of Shreyans Jain from Svan Investments.

Shreyans Jain: My first question is, if you could just explain, when I look at your business, retail, wholesale, and e-commerce, so when do we book the sales actually for retail, wholesale, and e-commerce? I mean I'm just trying to get a sense on how the working capital and our inventory would look like for each of the separate divisions.

Shailesh Chaturvedi: See, in retail channel, it's a consignment model. So the sale get recognized when customer buys.

Girdhar Chitlangia: On the wholesale channel, it is all based on delivery or whatever the inco terms are, whether they are FOB or CIF. And on e-commerce, 2 parts, the B2B is recognized based on delivery, depending on the terms with the partner, and on B2C, whenever the end consumer sale happens.

Shreyans Jain: So, in retail for both EBO, which is COCO and FOFO, sale would get actually booked when the actual sale happens to the customer, right?

Shailesh Chaturvedi: Yes, correct. Yes.

Shreyans Jain: So when I'm looking at your working capital then, we see some increase in your inventory levels, and that is about 5.5% on this I'm saying 9 months basis. So 9 months basis, there's an increase in inventory is about 5%, 5.5%. And 9 months, your retail has increased the most. So technically, your inventory and your receivables shouldn't increase that much, right? Receivables more so, 17% increase in receivables that should not increase because that's more cash and carry, right?

Girdhar Chitlangia: I'll answer the question. The receivables largely have increased because we have had a change of model in some of our partners. We moved to what we call more controls-based model where we have more visibility on the inventory base. So that's why you have seen there is an increase in receivables, and there is a corresponding decrease in inventory. So net-net of GWC, these are neutral, and this is what is reflecting in the numbers.

Shreyans Jain: And my second question is, sir, when I look at Slide number 8 -- no, sorry, not the brand where we're seeing emerging brands, does that slide, sir, make any sense right now because in effect, we're putting the whole business top line right there. And then you're saying EBITDA and PAT that actually is actually the P&L right in front of you, right? So I mean, what is the sense there? I mean, am I missing something? Or are we trying to indicate something via this slide?

Ankit Arora: So Shreyans, to maintain consistency, I agree to your point largely because now we are classifying everything as power brands. It's just that because we had reclassified after our Sephora transaction last year and because the base was such and from a Y-o-Y comparison, that's the reason which is what we have maintained that slide.

But I understand where we are coming from. We will probably take out that slide from Q1 of FY26 because everything is all fully revenue of all these 5 brands, but we just to ensure consistency with all of you as participants, we just wanted to kind of keep that slide because we have been doing that for last many quarters. That's the only reason. But otherwise, I agree to your point.

Shreyans Jain: And sir, just last question. So we understand Arrow, we are on a journey and we are somewhere near a positive trajectory in that journey. So just trying -- because we've been tracking the company for some 8, 10 quarters now, but we're still not able to get some sense on where -- I mean, can you just quantify what was the loss that we were doing, at least what we were doing in the past? I don't want to know where we are at currently, but what was the loss like exactly so that we know what kind of journey you've come through so we'll be able to better appreciate your journey.

Ankit Arora: So Shreyans, I will give you one very small data point in FY24 and then you can do the rest of your calculations. The EBITDA change from FY23 to FY24 was as large as about INR 70-75 crores. And that's the amount of delta, which is what we have really traversed in that entire Arrow profitability and it is only moving forward. There used to be a time during COVID where, of course, the brand was gotten hit the most given the environment conditions, and the brand became significantly subscale. And, we started losing money at EBITDA level.

But since then, from FY24 onwards, when we have turned this brand around at an EBITDA breakeven and a low single-digit, and it's traveling towards its eventual journey of mid-single digit to high single digit on a pre-Ind AS basis, that is where is what you are seeing the drag on profitability and on the bottom line as well significantly getting better only on a quarter-on-quarter basis, and it's accelerating moving forward.

Of course, please understand and appreciate that the last 2 years have been significantly tougher when you look at revenue growth. I mean that is something you can't do much, beyond a point. It's an external environment. And please keep in mind, in FY24, our growth rate was about 4%, YTD is about 8.5%.

So our aspiration on that is 12% to 15% and once that happens, you will see that journey being covered at a far more brisker pace than what we have done. But all the levers and all the hard work is already in place. The day you will see a significant green shoots acceleration on the growth, you will see that bottom line improving even at a faster pace from current levels.

Shreyansh Jain: And sir, last question. So we've been guiding for 12% to 15% top-line growth. So I think this year, it could be a challenge. But so do you still maintain 12% to 15% for FY26 and FY27 going ahead? Or you would want to revise that? How do you look at this?

Shailesh Chaturvedi: We are very committed to that. Our aspiration has not changed. We are gunning for 12% to 15% growth. We did slice it between the direct channel and wholesale channel that the -- in wholesale channel, also the underlying growth is 8% to 10%. The retail, which used to be a single-digit growth now, first quarter, the growth was 5%. Second quarter, the retail growth crossed 10%. Quarter 3, that growth has now gone up to 15%. And we believe that all the underlying growth drivers, enablers for that 15% growth on retail, and also higher growth in B2C will happen.

The question is on the wholesale. And like I explained earlier in this call that we believe that with the recent tax cut, with improvement in business, the impact of closure of one big chain, all that going away, we will see the business immediately coming to 8% to 10% growth in wholesale channel, and it will sort of move that part.

Another way to slice the growth aspiration is to look at our growth drivers. And we have a very large number of growth drivers that we have kept trying. They're all firing. So from like-to-like growth, which against a guidance of 5% to 7% this quarter, we delivered industry beating 11%. We have a very large square foot expansion target, 15% CAGR but for a little bit of mall delay, that engine is working really well, and you'll see large annualization and the growth will come from square foot expansion.

We're also talking about adjacent category growth, the womenswear, kids wear, innerwear. Footwear has taken a beating because of the BIS, but once the inventory levels improve, that business will continue to grow at more than 20%. On digital focus, that piece is 25% of revenue and will now after this pivot shifting from B2B to B2C, we'll continue to grow at 10%.

So we believe that our platform is ready. Our engines are firing, a little bit of improvement in the market condition a bit and that pivot happening, I think we will reach that 12% to 15%. Last year, our growth rate was 4.5%, and we had guided that there will be a strong uptick. We have gone from 4.5% to now 8.5% this year looks that level of high single digit, close to 10% growth. And we are very sure that the growth will only go up as the economic indicators become more favorable.

Kulin Lalbhai: If I could just come in here in this whole growth discussion, I think one of the things that gets lost is quality of growth. And if you really step back and see what the company has done is that we have stepped away from anything that could be low-quality growth. So the tail stores being shut down meant square foot addition had been low in the first half of last year.

Similarly, non-performing SISs have been stepped away from. And similarly, discount-led online growth has been stepped away from. So there was a very clear trade-off done that low-quality growth should be removed from the business model. And the good news is that those resets of stepping away from the low-quality growth are behind us. The square foot engine has turned positive now for 3 quarters, and you're seeing the growth rates coming. You've seen the B2C digital scale come back.

And as Shailesh said, the wholesale also you will start seeing coming back to its underlying growth. So the reset phase of low-quality reset is behind us. And we have seen the gains from it with a 20% almost ROCE coming into the business and very strong cash flows also beginning to come through in the business, the free cash flows.

But with the reset on the reset of bad quality growth behind, you will see the overall growth trajectory of the business moving up. And that's what is the movement now towards that 12% to 15% band that we've talked about.

Moderator: The next question is from the line of Abhijit Kundu from Antique Stock Broking.

Abhijeet Kundu: Congrats on a great set of numbers. My question was on how much of the growth or how much of the sales came from the end-of-season sales? Because you were one of the players, retailers who started the season with a late end-of-season sales. Most of the fashion retailers, they started their end-of-season sales from mid of December.

But yes, the large format stores who sell your product, they started off from mid-December. So the case in point is, yes, on one side, you have demonstrated that a better gross margin and a better EBITDA margin. So my question was how much of it has come from the discount sales? And how much has it come from the full-price sell-through?

Shailesh Chaturvedi: See here in Q3, as you rightly said, we delayed discounting, and we didn't go on EOSS sales with the industry, we delayed it because our full-price sell-through was good. Our like-to-like growth were good. So we didn't see the need to blink and go early, we held it. In Q3, there's hardly any discounted sale in this result that we have announced. That's why our discounting is lower by 1% in retail, 2% in B2C.

So we've been able to grow and like retail has grown at 15% and like-to-like double-digit across brands. And despite our hesitation to go or participate in end-of-season, we've grown well on all parameters, be it sales or be it profitability. Our EOSS, the journey is in January, and we will announce those results when we announce the quarter 4 results.

Abhijeet Kundu: So on a macro basis, how was the quarter? I mean, because what we understood when we were preparing the preview was that when we spoke to most of the fashion retailers, they were not very gung-ho about the quarter. They said that Q3 was a sort of a relatively muted quarter.

After the festive season, sales dropped and then there were challenges on the demand. But still, you have been able to record a pretty decent growth and pretty improved margin. So on a macro basis, how was the quarter?

Shailesh Chaturvedi: So I think the quarter -- I think here, you have to appreciate the beauty of our portfolio. We have such a strong portfolio of these 5 marquee brands are leaders in this space. In super premium segment, the Tommy and the Calvin Klein have a dominant position. U.S. Polo is a nearly INR 2,000 crores dominant brand in the men's casual space with strong momentum.

Arrow is a leading brand in the formal segment, a top-ranking brand across the channel. Flying Machine is a youthful jeans wear brand. So I think what we did the whole this portfolio re-jig a couple of years back and focus only on the marquee brands. In tough market conditions, this strategy always helps because we have very, very powerful brands in our portfolio.

And also, you have to see our portfolio in the light there is a whole casualization happening in the world. And our portfolio is very casual portfolio. So this casualization also helps us more than it helps some other players. And that's why we always seen that the market leader always benefit in good times and in bad times because people -- if you were to buy one T-shirt, you would rather buy a U.S. Polo than some other brand. If you're buying 5, maybe you will buy some other brand. But when the markets are tough, then the leaders gain market share. And that's what is happening. And when the market improved in winter, when the market improved for weddings, and we saw strong trading for wedding dates in November, and we saw early onset of winter where a lot of casualization happens in the winter.

So our brands have benefited. Also to my team's credit, our teams have executed the plans very well. Our marketing effort, we upped the investment in marketing, our quality of merchandise, the collection, for example, the Orry x FM collection, it got sold out, was very, very elevated. So I think because of our strategy of this focusing on marquee brands and our ability to revitalize the growth of these brands and investing, we have benefited.

Now whether market was good for everyone or not, time will tell. But frankly, if I have to summarize the Q3, I'm very pleased with the way AFL has performed in these muted conditions in Q3.

Abhijeet Kundu: Fantastic. Congrats once again.

Moderator: Thank you. Ladies and gentlemen, due to the paucity of time, we will take this as the last question for today. I now 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 your questions have remained unanswered, please feel free to reach out to me separately, and I'd be happy to answer them offline. Thanks and look forward to interacting with all of you again next quarter.

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.