Q4 FY2022 Earnings Call Transcript – May 30, 2022

CORPORATE PARTICIPANTS

- Kulin Lalbhai – Non-Executive Director
- Shailesh Chaturvedi – Managing Director & CEO
- Piyush Gupta – Chief Financial Officer
- Ankit Arora – Head, Investor Relations and Treasury

Moderator: Ladies and gentlemen, good day, and welcome to Arvind Fashions Limited Q4 FY22 Earnings Conference Call. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ankit Arora – Head, Investor Relations & Treasury at Arvind Fashions Limited. Thank you, and over to you, sir.

Ankit Arora Thanks Vivian. Hello, welcome everyone and thank you for joining us on Arvind Fashions Limited earnings conference call for the fourth quarter and fiscal year ended March 31st 2022. I am joined here today by Kulin Lalbhai – Non-Executive Director, Shailesh Chaturvedi – Managing Director and CEO and Piyush Gupta, Chief Financial Officer. Please note that results, press release and earnings presentation had been mailed across to you earlier and these are also available on our website www.arvindfashions.com. I hope you had opportunity to browse through the highlights of our performance. We will commence the call today with Kulin providing his key thoughts on our financial performance for the fourth quarter. He shall be followed by Shailesh who will share insights into business and financial performance and key priorities for us moving forward. 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 maybe 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.

Kulin Lalbhai Thanks Ankit. Hello everyone and thank you for joining us for the Q4 Results.

FY22 was a turnaround year for AFL and we have emerged as a much more focused, healthier and profitable company. In spite of 2 COVID waves, AFL was able to grow its revenues by 32% and posted a net profit of Rs. 40 crores in the second half of FY22. We dramatically improved our balance sheet with a net debt reduction of more than Rs. 525 crores in the year and reached an inventory turn of 4x in the second half of the year surpassing our commitment given at the start of the year.

We have a focused portfolio of market leading brands that have a leadership position in their respective segments and are being re-energized to take full advantage of the market opportunity ahead. Q4 was a very strong quarter for us and continued on the momentum that we saw in Q3 even though we were impacted by the third COVID wave in January and early February, our sales for the quarter were up 34% year-on-year. EBITDA after adjusting for rental concessions, which we had last year in Q4 was up 36%.

The retail channel turnaround continued. The like-for-like sales growth for the quarter was 15% and if we remove the impact of January, the like-for-like sales growth in February and March was 20%. This performance was made possible by the re-energizing of our retail network, a timely launch of the season, and new product innovations launched across our different brands. The department store channel, which had shown sluggishness till quarter 3 saw a strong rebound in quarter 4 with sales, which were up more than 2x over last year. MBO channel has also shown very strong performance. With tight inventory management policies in place, this business delivered strong tertiary growth. The online business ended the year at close to 1,000 crores. We expect strong momentum to continue in the online channel powered by new category expansion, our omni-channel push and the strong leadership position of our brands in the channel.

Our balance sheet position continues to improve. We achieved an inventory turn of 4x for the second half of the year. This was made possible by the supply chain re-design that we are currently implementing. As we continue to transform our supply chain into an agile and responsive one, we expect our inventory turn to further improve. We also saw a huge improvement in debtor days, which has fallen to 68 days in FY22. This has been possible due to strong controls and disciplined execution in the wholesale channel.

Our net working capital for the year ended at Rs. 489 crores, which is Rs. 118 crores lower than last year. We were able to further reduce our debt this quarter and ended the year with a net debt of Rs. 397 crores.

We are excited about FY23. With the turnaround complete, we expect the business to gain momentum in the coming year. We expect the retail and online channels to continue to drive growth and account for 60% to 65% of our overall sales. Retail growth will be driven by a continued push on productivity and sell-thru's, as well as by the strong expansion into new towns. We expect online growth to remain robust even on a large base.

Our new focus areas of footwear, innerwear and kids wear will see rapid growth. While we have multiple growth drivers, the focus will be on profitable growth and improving ROCE. An improved performance in Arrow, improvement in margins due to better self-thru's and operating leverage due to higher scale will lead to a much improved profitability. We look to further improve our inventory turns with the help of our supply chain transformation efforts. Profitable growth coupled with strong working capital controls will allow us to invest in technology and store expansions and still generate free cash flow to bring down debt further next year.

I would now like to hand it over to Shailesh to take us through more details.

Shailesh Chaturvedi: Thanks Kulin. Good afternoon friends.

With Rs. 917 crores revenue, an EBITDA growth of 36% net of rent concessions, there has been a consistency in AFL's performance in quarter 4. In quarter 3, it was a Rs. 1,000 plus crores revenue quarter with 30% revenue growth. Q4 has kept pace with the previous quarter. It has been a very large revenue quarter, second highest in last many-many years and maintained growth at 30%+.

So, AFL's H2 revenue was Rs. 1925 crores, which was a 32% growth over previous year H2. EBITDA has also consistently grown. In Q3, EBITDA growth was 64% and in Q4 despite COVID impact in January and in early February, EBITDA growth is 36%, net of rent concession.

Overall, AFL has delivered Rs. 200 crores EBITDA in H2 and a growth of 30% with a scale of Rs. 1925 crores. October-December quarter had seen brisk business as consumers had started shopping with energy, but even in that quarter, we had started seeing cracks in the second half of December due to the onset of COVID wave 3 and it led to severe restrictions on retail in January 2022 across the country. Even as the January numbers got impacted due to COVID, we started seeing recovery in second half of February. March was a fantastic month with an overall growth of 70% in revenue, which was around Rs. 90 crores of growth over last year's March backed by 45% growth in retail business.

Department store business, which was at around 55% recovery in November and December last year has shown big strides and in Q4, department store business has more than doubled over previous year's quarter 4. We maintained consistency in gross margins also at around 45% plus despite continued inflationary pressures. With our pricing power of brands, internal efficiencies, higher like-for-like growth, higher full prices sell thru and resulted lower discounting, we ensured that second half gross margin improved by more than 180 basis points to 45.3% over similar period last year.

While retail had grown 40% like-for-like in October-December, it continued to grow at 20% plus like-for-like in February and March after COVID impacted January. The fall holiday season that got over in February saw all-time high full price sell-thru’s.

I am very happy to share that this retail energy has continued into Spring-Summer 2022 season where we are seeing bumper full price sell-thru’s in February to May period. Spring-Summer 2022 sell-thru’s are likely to be even higher than AW’21 season where he have seen much lower discounting. These retail metrics have looked up because of our focused execution on new way of developing merchandise close to season, launching season with higher energy backed by stronger storytelling, better visual merchandising and a lot of emphasis on staff training. With our tight control on OTB for buying and focus on high stock turn, very high percentage of our inventory in the market is very fresh today and fresh merchandise supports higher like-for-like growth, higher full price sell-thru’s and better gross margins. We consistently delivered 45% plus gross margin in H2 and we aim to improve further in FY23.

Our iconic brand U.S. Polo Association has been strengthening its leadership with improved profitability in the market. USPA had grown more than 40% in Q3 with double digit pre-IndAS EBITDA and it has continued to grow at 44% with double digit pre-IndAS EBITDA in Q4 also. We have significantly refreshed the brand with new brand campaigns on the theme of twinning with Arjun Rampal. We have developed a high quality new store identity and made significant improvement to USPA's product lines. The launch of the largest USPA store in Express Avenue Mall in Chennai recently has been a key highlight of quarter 4. Adjacent categories of USPA including footwear, innerwear, kids wear have continued their profitable growth journey and USPA is likely to deliver a scale of Rs. 1,500 plus crore in FY23 with double digit post IndAS EBITDA margins. In a couple of years, we see the brand reaching the next logical milestone of sales and profitability and it will remain in the top few brands in this segment in the country.

While COVID impact has been a serious challenge for Arrow, our formal brand and COVID impacted its Q4 financials, I believe the worst is behind us on Arrow due to significant sell-thru improvement that we saw earlier in Q3 along with very high like-for-like growth in trade channel. Backed by our product refresh strategy in Arrow, Q4 saw further gaining of momentum in Spring-Summer season with Arrow brand turning around its performance significantly with very good like-for-like growth, further improvement of very high mid-teen percentage in full price sell-through and strong reduction in markdowns in Arrow. With a large footprint expansion under way, these results reflect the sharp rebound in Arrow and we believe the brand will deliver better profitability in FY23.

At the same time, our two market leading brands in the super premium bridge-to-luxury segment, Tommy Hilfiger and Calvin Klein, have delivered a great performance in quarter 4 despite COVID in January. Both delivered strong double digit pre-IndAS EBITDA and huge like-to-like growth of more than 20% and with significant improvement in stock turns. Sephora, another of our prestige brands also delivered strong performance in Q4 with more than 50% growth in the quarter. With continued success of these market leading brands, AFL has demonstrated its capability of nurturing and then fast developing premium brands of repute in India. Flying Machine has continued to do very well in segment of denim wear for youth and get significantly an appeal with consumers with online-first mindset due to its partnership with Flipkart group.

Like we said earlier, this financial year FY22 that's gone by has seen big transformational changes at AFL. The Company fought two rounds of COVID waves, strengthened its balance sheet through capital raise, saw rapid and consistent recovery with healthy profitable growth across our brands with sharper execution focus and has significantly deleveraged its balance sheet. We have continued to focus on improving stock turns with transformation projects on supply chain and results are showing with stock turns in H2 being 4x. We believe that gain from supply chain initiatives, we are likely to increase our stock turns further in FY23. We made sustained efforts this year to reduce debt. The net debt now stands near Rs. 400 crores mark. We see opportunity to further reduce debt in a FY23 even after funding our growth aspirations. With better stock turns, free cash generation for business and tight control on balance sheet, we should be able to fund growth momentum without increasing net debt.

With this I hand over to Ankit for further proceedings.

Ankit Arora: Thanks Shailesh. Vivian, we can open it up for Q&A now.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Nishit Rathi from CWC. Kindly proceed.

Nishit Rathi: Congratulations Shailesh & Kulin on an amazing quarter. This was indeed a challenging year and you guys have done really well. My point was basically we seem to be doing well almost on 2.5 out of the 3 parameters we had set for ourselves. So, the revenue seems to have come back. The stock turn and the balance sheet turns are looking decent. The only question that I have is, is it that we will have to settle for slightly lower margins to achieve these objectives or can we also expect our margins to keep moving forward because certain brands are showing that, but on an overall basis on an overall Company basis, how should we think about it?

Shailesh Chaturvedi: We have our stated guidelines on this that in the next 12 to 18 months, we want to see double digit power brand EBITDA across our portfolio and we see opportunity to grow our margins through many means currently while sales side, we have seen a lot of levers, digital, adjacent category, small town expansion, sales density, on margin side also, we believe that we will start seeing the operating leverage through larger scale post Covid. Last year also saw two rounds of COVID whereas we grew significantly in our sale, but we see opportunity to grow further. There will be a growth because on the net base of COVID, so the COVID impacted months will see a larger bump, and then there is a further 12% to 15%, more like 15% growth this year. So, we believe that operating leverage will come through that increased scale. Second point, like I said in my opening comments that Arrow is a brand where we are now seeing green shoots of recovery and we are very confident that the worst is behind us on that and it will start delivering initial round of profits. Also, our KPI's on full price sell-thru, the way we are launching season, we expect the discounting will come down, which will further increase our margin. Also, we have seen large tight trade hygiene, the way we manage our MBO channel very profitably on returns and some of those at par, so there is a tightness on our management of trade and we are seeing better margin from the trade channel. Also, we have pricing power in our brands, so while the inflation is there and its quite high, we have seen the industry is able to pass on price increase till now and our strong brands will have the ability to pass on pricing to consumer in line with the industry practices. So, because of all these margin drivers, we believe that our power brand portfolio should reach double digit pre-IndAS EBITDA in 12 to 18 months.

Nishit Rathi: So, Shailesh, is it fair to assume that your 4 power brands, basically U.S. Polo, Tommy, Arrow and Flying Machine, those will reach double digit margins and CK, if I heard it right, is already double-digit margins? So, 5 out of our 6 brands will be double digit margins?

Shailesh Chaturvedi: Our brand portfolio, our guidance is that we should hit total portfolio double-digit pre-IndAS EBITDA in 12 to 18 months. And we are on course for that.

Nishit Rathi: In fact you are saying you will improve the turns, right? That is what you are saying, right, through the initiatives that you have taken?

Shailesh Chaturvedi: We believe that we have supply chain transformation in the play, we have increased our stock turns. We had guided that we will hit 4 by the end of this year. In the second half of the year, we have hit 4 turns and we have further levers to work on and our supply chain transformation project is underway and we see that we will continue to gain turns also. COVID slowed down turns. So, even in H2 while before January, stock turns went down because of COVID. So, in absence of COVID and the transformation project and the way some of the new practices which will sustain, we are aiming to improve our stock turn.

Nishit Rathi: One last question from my side. You mentioned that the month of March was extremely good and I read somewhere in your presentation that April and May, the momentum seems to have continued well. Is there anything you can share on that? Are we seeing March like improvements continue in the month of April and May?

Shailesh Chaturvedi: There was an extra hunger, so to say, in March because of COVID in Jan-Feb, it was unreal month for the industry and for us, we grew at 70%. That's exceptional, but demand remains strong in the short run, so April-May numbers are also very good. I won't use the March as the reference, but if I look at March to May, whatever the numbers we have seen, we are really pleased with the KPI's, improvement in sell-thru, the like-for-like growth. We are having a little bit of inventory shortage right now and it's a good situation to be in and we're very pleased with the performance of our brands in the market.

Nishit Rathi: I think this is great and the most heartening fact is the number of times you have referred to the full price sales and sell-thru. It is very good to hear that you are focusing only on getting the revenue at the turns you want and that is very heartening to hear. Thank you.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investments. Kindly proceed.

Pritesh Chheda: Ya sir, thank you for the opportunity and the performance is moving in line with the strategy you have charted out. Just for the second half where we are doing at about Rs. 1,900 crores of business, it would be very nice if you could share what is the pre-IndAS EBITDA margin in this Rs. 1900 crores and how much of burn or loss or number is there for Sephora because all the other brands you largely mentioned that they are at double-digits.

Shailesh Chaturvedi: We report post-IndAS number and in H2, if you look at our Rs. 1925 crores NSV, we have a Rs. 200 crores EBITDA. This is post-IndAS. That number I am saying, which is 10.4%. The pre-IndAS tends to be lower, but we don't discuss the pre-IndAS numbers. We share the post-IndAS numbers. So, you can get a sense, our EBITDA at Rs. 200 crores has grown at 30% over the previous same period. So, we've done well and our EBITDA percentage in absolute value has improved. You can take 400-500 basis points difference between pre-IndAS and post-IndAS.

Pritesh Chheda: And how much of EBIDTA loss we are making in Sephora?

Shailesh Chaturvedi: Again, we don't give brand-wise specific, but I can tell you that Sephora, like I mentioned earlier, has done really well. The growth has been very-very encouraging and the business parameters like like-to-like growth, stock turns, Sephora has improved, but we don't share individual brand numbers.

Pritesh Chheda: Considering that we are also further focusing on improving our inventory turns from the exit of 4 times and the fact that we're looking at improving margin, I wanted to understand what is the capex that we have? Will the capex be less than depreciation number? And if so, then we might actually lead to reducing our debt very soon over the next couple of years, we should be a debt-free balance sheet, so is that correct?

Shailesh Chaturvedi: Let me start with the debt part. There is a very likely chance that debt we will reduce this year further. We had guided in the beginning to Rs. 600 crores, now we are at Rs. 400 crores net debt and in FY23, we see the possibility of further reduction. We don't know exactly because market is still volatile, but given the stock turn improvement and tight control on working capital and business throwing cash, there is a very high probability that debt will further reduce this year. Our commitment to reduce the debt as fast as possible.

Pritesh Chheda: And what will be our capex?

Shailesh Chaturvedi: This year, our total capex planned is around Rs. 90 crores, a large amount of that is for retail because we will renovate stores. Markets are coming back. We will renovate a lot of our department stores, etc. So, we want to keep the brands very refreshed in the market place. So that's the main part of it. We don’t have a major capacity expansion of factory or anything or new technology, but whatever is required in investment into technology upgrade and also the retail, we will do, which will add up to around Rs. 90 crores.

Pritesh Chheda: And there is last one clarification, earlier when we were at about Rs. 3,000 crores of business, we were doing 8% pre-IndAS, so whatever you have referred to 4 percentage lower than the reported number, so is there any cost item which is different in this Rs. 1,900 crores or annualized Rs. 3,600 crores business?

Shailesh Chaturvedi: Our EBIDTA are going up consistently 30%+. We have seen nearly 200 basis points improvement in EBIDTA in the power brands. So, we are doing well. I think sometimes the COVID does impact the EBIDTA. Also, in the last year, there was a rent concession linked to the COVID, which was around Rs. 20 odd crores. This year it's only Rs. 3 crores. So, that affects the calculation, but otherwise we are doing well and we hope to continue to improve EBITDA every year.

Pritesh Chheda: Do you share a strong outlook for the apparel category per se considering what you are seeing after quarter 3?

Shailesh Chaturvedi: We have seen strong demand. That also along with strong cost increase. We believe that AFL will grow as per our guidelines, which is COVID growth, so net of COVID, on top of that, we will aim for 12% to 15% growth and more like 15% this year. So, we are seeing strong momentum for our power brands.

Pritesh Chheda: And net of COVID means adjusting for quarter 1 numbers, so the reported growth will be much higher?

Shailesh Chaturvedi: So, there will be growth because of COVID base and then on top of that, 12% to 15%.

Moderator: Thank you. The next question is from the line of Vaishnavi Mandhaniya from Anand Rathi. Kindly proceed.

Vaishnavi: The working capital improvement has been very drastic in this year. So, if going forward if you are focusing more on growth, what kind of working capital should we expect going forward?

Shailesh Chaturvedi: We said earlier that we believe our debt will come down. We see opportunity to improve turns first of all. We believe that the working capital will remain in the zone that it is in today and wherever there is scope to improve turns, etc., we will improve it further. So, we are in the zone where we can make further improvements in working capital.

Vaishnavi: But the improvement that we are talking about, will it be obviously on the inventory side with higher turns, there will be an improvement there, but then from the current 99 days, I think the lowest we have ever gone is 93 days that was in FY19, so can we go back to that level or should we assume it to be lower or even on the receivables, 68 days probably has been the lowest for us and on the payable days, 125 have been the highest. So, how do we work with these numbers?

Shailesh Chaturvedi: I will request Piyush and Ankit to take this question, but I can see that there is still a juice for us to improve working capital.

Ankit Arora: The way you should really look at this is, our inventory days will continue to improve from here onwards, which you rightly said and Shailesh also mentioned on our inventory turns continuing to improve. Our debtor days, you are absolutely right, have been the lowest and that's where the entire process controls which have been put in over the last 12 to 24 months is yielding fruits and we expect these controls to remain sustainable. On the creditor side of 125 days, it's not completely right because there are two aspects, which are being played out here. If you step back and look on a quarter-on-quarter basis, our creditors in absolute Rupee terms has come down by about Rs. 50 crores, but as you'd understand, we build up for upcoming season and that will come down as inventory turn into cash with the sales in spring-summer 2022. So, 125 calculation is more on the base of our current end creditors as of March 2022 versus Rs. 3,000 crores, which is what we have achieved, which is also actually impacted by COVID. So, if you really adjust to that, our normalized creditors days should hover in the range of about 90 to 100 days going forward and that is also reasonable as per industry standards.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Kindly proceed.

Deepak Poddar: Thank you very much for the opportunity. I wanted to understand more on the aspiration front. You did speak about EBITDA margin improving year-on-year and we will start seeing the operating leverage advantage. So, how do you see the aspirational level of EBITDA margin, maybe in the next 2 to 3 years?

Shailesh Chaturvedi: Our guidance is that in 12 to 18 months, our power brand portfolio should do double digit pre-IndAS EBITDA and that's a very key task ahead of us. We need to achieve this before we stretch our guidance further. Its better that we focus on this and achieve this and then look at things moving forward after that. Obviously, our aspiration should be ambitious and we want to deliver many more, but we have a very clear focused task ahead.

Deepak Poddar: But currently our pre-IndAS power brand, I think the fourth quarter, it was close to about 8%?

Shailesh Chaturvedi: Quarter 4, our reported post-IndAS margin was 10%.

Ankit Arora: That's our reported number, which we are referring to.

Deepak Poddar: Reported number in the fourth quarter for power brands, we did EBITDA of Rs. 87 crores.

Shailesh Chaturvedi: Yes, 12% post IndAS for power brands.

Deepak Poddar: And I think you mentioned 400 basis points difference between pre and post, so that's how I arrived at 8% for pre-IndAS. So, we are already at 8% for power brands. So, that's what we are targeting in the next 12 to 18 months this 8% going up to 10% and 11%, double digit?

Shailesh Chaturvedi: Yes. That's our stated aim to take the overall portfolio of the power brands to double digit pre-IndAS.

Moderator: Thank you. The next question is from the line of Mythili Balakrishnan from Alchemy. Kindly proceed.

Mythili: Just a couple of question. I wanted to understand from you, you are talking about opening 200+ stores, will they largely be EBOs? How are you thinking about this expansion?

Shailesh Chaturvedi: We have setup central sales structure and we are now going in to the smaller towns, smaller tier grade towns and our teams are now in the field who are scouting for stores. So, these will be individual brands, let's say USPA store or an Arrow store or a Flying Machine store or Tommy, CK, so these will be the mono brand EBO as we call it, Exclusive Brand Outlet, across the country largely through the franchisee route.

Mythili: And the other question which I had was basically on this raw material inflation that we have seen, it's been kind of an unprecedented inflation that we are seeing, so I just wanted to get a sense from you as to whether we are passing it on in terms of ASP increases and what's the response to that and so on?

Shailesh Chaturvedi: Industry and us, we are trying to pass on the increased costs and it's been on for a year and we will see further increase in the next season in July-August. So, we are able to pass on because these brands are strong, but I would also say we are holding our gross margin because of pricing power as well as from internal efficiency on full price sell-thru, lower discount. That lower discount is also helping us to maintain our gross margin at around 45%. We have not seen any slip on that. So, that's the reality and there is further cost increase for the next season, which we also will pass. Currently, the way our consumer metrics are on sales, on walk-ins, conversion, full price sell-thru, they are all very strong. So, the strong metrics in spring-summer seen indicates that consumers have taken this current price increase well. We'll have to see what happens in the next season.

Mythili: And just a question on the accounting side, which is that when we have a minority interest, which is around Rs. 21 crores. What does it mean about the profitability of the remainder brands in the power segment because if you have Rs. 21 crores of minority going out then a large part of it is, I am assuming, CK and TH, then the profitability of the rest of the brands is clearly a bit lower?

Shailesh Chaturvedi: Another way to look at is that USPA has a very good profitability and its growing scale and profitability further like I said earlier, it will be a large scale business in FY23 again and even bigger scale. Arrow is the challenge area. I said that whenever COVID happens, Arrow profitability does get impacted and that's why when you say net of minority, the numbers go down because there is a plus and a minus, but what we are seeing is that the worst of Arrow is behind us. We're seeing a very good KPI's in this season. In April-May, Arrow numbers are looking very good. So, probably in future, you will see the net of minority, the numbers will look different then.

Moderator: Thank you. The next question is from the line of Riken Gopani from Capri Global. Kindly proceed.

Riken Gopani: I had 2 questions. First, in your comments, you have outlined that you focus next year on scaling up the adjacencies significantly. So, what is the number currently if you can highlight and what's the growth in that segment for you today and which brands have adjacencies which have become meaningful?

Shailesh Chaturvedi: AFL invested ahead of times through very dedicated resources behind adjacent category, created a separate footwear team and division for U.S. Polo brand and innerwear brands. So, to answer the question on which brand, U.S. Polo was the first brand that we focused on and parallelly on the other side, Tommy has a very large portfolio of adjacencies, including watches and footwear and eyewear and other businesses. Also, kids wear was a focus team in U.S. Polo. So, the adjacent category that we're talking about kids wear, footwear, inner wear and then there is an opportunity to add category like women's wear in U.S. Polo and this business is almost like 15% of the business, doing well, growing well, profitability, good stock turns and now we want to grow our Company and our brands through launch of adjacent categories for other brands also. For example, Flying Machine, we are testing a few categories in that brand. We are adding some of the new categories in Tommy Hilfiger, for example, tailored blazer and suit, which was not there in that brand, we are adding that category, but the classical adjacent categories are footwear, inner wear, kids wear, women's wear, etc. and we are investing ahead of time in these categories and they are doing really good numbers right now.

Riken Gopani: So, just a follow-up to this, so 15% when you say, it is of the specific brands?

Shailesh Chaturvedi: Yes, of the specific brand.

Riken Gopani: So, I can assume 15% of overall power brand business?

Shailesh Chaturvedi: It's largely in U.S. Polo. So, power brands also include Arrow. We have not added lot of adjacencies in Arrow as yet. So, as we go, we keep growing there, but currently the main focus in in the U.S. Polo, our biggest brand.

Riken Gopani: And what's the growth, you said it's 15% and you said it is growing well, but if you can quantify?

Shailesh Chaturvedi: So, in different categories like footwear, I must call out here, that has been developed as an online-first mindset business and it's grown really well. It's growing at more than 50% with very good stock turns and very good EBITDA margin. Innerwear is growing at double-digit with healthy other business metrics. So, these categories have a huge potential of further growth profitably going forward.

Riken Gopani: And do they also have better margins compared to the core portfolio?

Shailesh Chaturvedi: Yes, for example, footwear has very good margin, very good stock turn, is very strong and USPA footwear is a top-ranked brand in Myntra. So, in a very competitive world, it's already established itself as a ranked brand. So, it's built the brand appeal also because a lot of consumers enter U.S. Polo through footwear perhaps and they fall in love with U.S. Polo brand because of its exciting range of footwear that it has and so, it's brand additive both on appeal, as well as on scale and profitability.

Riken Gopani: And the second question that I had was on Arrow. So, currently if you could outline in terms of where the peak size was and what the current size is and how soon do you expect Arrow to again go back to its peak revenues?

Shailesh Chaturvedi: Let me say that in FY23, we expect Arrow to reach its peak revenue.

Riken Gopani: Maybe if you can quantify or put some weightage roughly?

Shailesh Chaturvedi: Let's wait for few more quarters. We are in FY23 already.

Riken Gopani: Does Arrow also in terms of realizations and margins deliver better at peak revenues in terms of margin, would it be accretive in terms of margins in your assessment?

Shailesh Chaturvedi: It's a process. Arrow gets more impacted by COVID than other brands because of formal nature of its product line and also the fixed costs where the channel is largely department store and EBOs are a larger percentage in Arrow. So, it gets impacted. So, now today the focus is and all the KPI's we are chasing is to bring it to a decent level of profitability, which we expect to deliver in FY23.

Moderator: Thank you. The next question is from the line of Naysar Parekh from Native Capital. Kindly proceed.

Naysar Parikh: My question is going back on the minority interest question. There is Rs. 21 crores of minority interest. Is it fair to assume that that much profit is reflective of the CK and TH brands and USPA is also profitable, so it is fair that between Arrow and Sephora, we would be losing anywhere Rs. 30 to Rs. 40 crores, is that a fair assessment or how should we look at it?

Shailesh Chaturvedi: I won't comment on a specific number, but like I said earlier in the previous question that while Tommy, CK are indeed very profitable now, that's a fact and we are happy about it and U.S. Polo is also double-digit pre-IndAS EBIDTA and it's looking strong going forward. Arrow has been getting impacted by COVID and that's why the numbers look smaller, but we are seeing a very dramatic turnaround in Arrow performance and we strongly believe the worst is behind us. So, we will see hopefully better times in this particular case in FY23.

Naysar Parikh: So, on a follow-up, Arrow is something which has been a struggling brand really in business cycle in some way, so if you could share some operational metrics or something because obviously the loss on Arrow is significantly dragging the P&L really. So, if you have some operational metrics either in terms of full price sell-thru’s or in terms of how the brand has been tracking or is there any other strategic approach that you have in mind because the brand has really, when you compare with some of the leaders, the brand has been struggling for 5 to 6 years?

Shailesh Chaturvedi: Let me answer with the last 2 years' background. Trust me, we have worked extremely hard in the last 2 years to make Arrow a more desirable brand with a stronger consumer pull. Point number 1, in tune with the times and COVID times, we changed the product category. So, while it is a top brand in the formal elegant wear, we also created a line called Sports where it is more relaxed workwear, which is right for the COVID time and it is doing fairly well as a category in Arrow. We also changed the logo for Arrow. We created a new more powerful A vector, brought it as a part of logolization in the industry, to the pocket where consumers are really liking it. Point number 2, we created a new store identity to refresh the brand in current times. The brand is from New York. So, we took inspiration from the ardeko look of the New York tall skyscrapers and we created stores, which have shown a higher sales density. We are opening more of stores of Arrow with the new identity. Third, we tied up with Hrithik Roshan to show our commitment to the brand that we are still investing behind this brand with a power brand ambassador like Hrithik Roshan who has 50 million followers on social media, large investment even in COVID time, we never shied away from investing behind the brand. Fourth side, is that we built a new team, building a new line of suit and blazer. Now, sum total of all the hard work couldn't be seen in the peak COVID time and we saw 3 waves in the last 2 years. We all know how COVID impacts businesses. What we have seen from the fall holiday where we saw the recovery in October-December period, we saw the trade customers having more than 25% like-to-like store growth in Arrow. So, it's a smallish channel for Arrow, but we saw really encouraging numbers there. We also saw high improvement in the sell-thru as a percentage in fall holiday thereby the discounting started reducing by few percentage points. We are very happy that in SS'22, we launched the season well. Our stores have started doing well. So, this season, the result that we will report after April-June quarter, we have seen very good like-for-like growth, very good full price sell-thru increase and very encouraging discount reduction in Arrow. In addition to that, a part of our supply chain transformation project we have done on Arrow where we are trying to increase its categories of core products, we want to push that business and in April we saw that the fruits of that transformation project also started yielding results. So, sitting here of course, we have seen COVID times and we have seen the impact on the numbers. Unfortunate, but that's the reality and we strongly believe that the worst is behind us and we believe that in FY23, we will see profitable performance from Arrow.

Moderator: Thank you. The next question is from the line of Sagar Bhatia from Prabhudas Lilladher. Kindly proceed.

Sagar Bhatia: Congratulations on great set of numbers, very encouraging. I just wanted to understand a little bit more about your online positioning of the brands going forward and what the management is looking at in the next year, 2 years from now, just on the online front and not on the retail front?

Shailesh Chaturvedi: We have an undisputed market leadership in online space in apparel industry. We clocked Rs. 1,000 crores revenue, profitable channel and in COVID times, when the consumers changed their habits, we were ready because we had invested ahead of times in many thing besides our own website, NNNow.com, in marketplaces and fulfilment centers across the country. So, we have reaped the benefit of that focused investment in the online channel. So, today all our brands do very large online business. From wholesale business, we do with the portals to our own marketplace, which is growing at a large base and doing hundreds of crores of business. We have our own NNNow.com, which is a very good consumer connect. We are chasing direct-to-consumer appeal of the brands, so NNNow.com and marketplace, which has grown in quarter 4 also at more than 25%. So, there is a good traction. Online has become somewhere close to 25% of the AFL revenue mix profitably. Now, the idea is to continue to invest behind this exciting channel and take this forward. So, one of the aspirations will be to recruit a lot of young consumers who are digital-first mindset through online space and create appeal for our brands through that. We are doing a lot of product assortment, online for online and the SMU's that we do, which are based on the reality and analytics of the online world and in the last one year, we have really invested behind SMU's and we're taking that idea forward. The website continues to grow well. So, we are investing a lot behind building the team and the assets to take the online business forward at a very healthy pace because we're seeing a lot of traction in that space. Kulin, do you want to add anything more to the online space, please.

Kulin Lalbhai: I think you have covered what we are planning to do. If you see, there are 3 or 4 very large trends, which we are betting on. I think the first trend is that online is moving away from a liquidation channel to being a channel of its own and that means designing product and designing a supply chain separate just for the online channel, which is what Shailesh was mentioning as SMU, Specially Made Units, I think that is the future and that is what we are accelerating. The other big shift is that offline and online are converging. So, how we are connecting our store inventory and whilst we have done it with our own dot com and some of the leading portals, many more portals are just now becoming omni-compliant. So, connecting our stores to more and more online demand is the second large theme, which we are betting on. The third theme is that over time, we need to own the channel more. So, the old paradigm was you sold to this channel and then you forgot about it. The new paradigm is you directly engage with the customer through own dot coms and through marketplace as a model. So, we are strengthening our capabilities there and lastly, I think this channel is very powerful for adjacencies. Our case study of U.S. Polo with sneakers to become the number 1 sneaker brand in a couple of years' time was only possible if you get your product strategy and your digital strategy right. So, I think we will use this channel to really catapult into new categories in a disruptive way. So, along these 4 themes, I think we are making investments ahead of time so that we can fully capitalize.

Moderator: Thank you. Due to time constraints that was the last question. 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. Trust all your questions were answered. If any of you have any further questions or need any clarifications, feel free to reach out to me and I will be happy to take them offline. Thank you and we look forward to interacting with all of you next quarter.

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