



Q1 FY2026 Earnings Call Transcript – July 29, 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 Q1 FY26 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 Pari. Hello and welcome everyone and thank you for joining us on Arvind Fashions Limited earnings conference call for the first quarter ended June 30, 2025. I am joined here today by Kulin Lalbhai, Vice Chairman and Non-Executive Director, Shailesh Chaturvedi, our Managing Director and CEO and Mr. Girdhar Chitlangia, our Chief Financial Officer.

Please note that result press release and earnings presentation had been mailed across to you 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 first quarter and full year's performance. Post that, we will have Shailesh, who will cover the details of business highlights and financial performance. At the end of the management discussion, we will have a Q&A session.

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

looking statements publicly. With that said, I would now turn the call over to Kulin to share his views. Thank you and over to you Kulin.

Kulin Lalbhai

Thanks, Ankit. A very good afternoon to you all. Thank you for joining us for the Q1 Results.

I would first like to talk about the change of leadership at Arvind Fashions, which we announced a couple of weeks ago.

As part of the succession planning of the organization, we will have Amisha Jain join us as the Company's new MD and CEO effective August 13, 2025. Amisha is a seasoned leader with over 25 years of experience across technology, consumer and retail sectors. She joins us from Levi's, where she led the transformation and scale up of the brand spanning multiple geographies. She has deep digital expertise and has also worked in transformation assignments with new age business models. She has a strong understanding of the new age customer, and we believe she is well positioned to lead the charge for AFL and take it to the next level.

Also, I would like to take this opportunity to thank Shailesh for his immense contribution towards executing a sharp turnaround at AFL, driven by profitable growth and strengthening of the balance sheet. He has been instrumental in getting the business to this stage. In his 19 years with Arvind, he has built Tommy Hilfiger and Calvin Klein into the most respected franchise in the lifestyle space in India, and has thereafter energized the entire AFL portfolio. He leaves behind a wonderful legacy, which we will now build upon.

I am extremely excited about the future of AFL. We have one of the most compelling portfolios in the business. We also have strong momentum across our brands with improving growth rates and higher profitability. We

will continue to strengthen our direct distribution channels, both retail and online, which will also entail investing more in product differentiation and premiumization, and also an increased investment in marketing. We will further sharpen our existing capabilities and add new ones, as required. In doing so, we hope to accelerate our growth, and at the same time drive a further improvement in profitability, which in turn should drive a higher return on capital employed.

Let me now talk a bit about our Q1 Results. FY26 has witnessed a strong start with revenue growth clocking 16%, along with improvement in profitability and a significant increase in our bottom line. It's pleasing to note that the growth is all around led across channels, especially strong growth in our direct channels of retail and online direct-to-consumer.

Our efforts over the last 12 to 18 months, including retail network expansion, coupled with higher investments in marketing to reenergize our brands, have yielded strong results. We invested 140 basis points higher in Q1 in advertising on a year-on-year basis. And despite that, we saw 20% growth in EBITDA, resulting in a multifold increase in our PAT.

Moving forward, we hope that the demand environment should improve on account of the government's efforts as well as the onset of the festive season. And with investment across all our growth levers, we expect an uptick in growth rates for us on a comparable basis vs. last year.

With that, 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 Dear friends, Hi. The story of Q1 results of AFL is growth. Impressive growth of 16% in NSV and EBITDA growth of 20%. There is all-round growth across channels and across brands. NSV in Q1 is Rs. 1,107 crores and

EBITDA is Rs. 148 crores. Our strong effort on growing direct channels of retail and online B2C has gained further pace in Q1. This group has now reached nearly 60% of AFL revenue.

Retail growth is very healthy at 15%, backed by impressive like-to-like growth of 8.1% with addition of nearly 40,000 square foot. Online B2C channel also grew more than 30%, establishing further our pivot away from wholesale online to online B2C. The share of digital business has crossed 25% with very good improvement in profitability.

I am also very happy to share that wholesale channel growth has picked up to double-digit growth, impacted by better freshness of inventory, higher salience of our powerful brands and better trading environment. We saw very impressive consumer traction at premium department stores. At brand level, our intense investment into our marquee brand U.S. Polo Association is bearing fruit, and the brand has grown more than 20% in Q1.

Tommy Hilfiger and Calvin Klein business has also grown double digits, delivering exceptional margin profile. This acceleration of growth at AFL to 16% is backed by huge improvement in freshness of inventory, very sharp execution of consumer promise, very high 140 basis points increase in advertising, opening of nearly 40,000 square foot additional retail space, and strong momentum in our growth drivers like adjacent categories and digital business.

Kids wear, innerwear and womenswear have all grown impressively on an average by more than 25% in Q1. With BIS issue largely behind, inventory situation in footwear business has started to improve, and we expect footwear growth to inch up further moving forward. The growth in EBITDA at AFL in Q1 is 20%, a 50-basis point improvement despite heavy 140 basis point increase in advertising. Reduction in retail discounting by 1.2%, move

to richer channel mix, cost efficiencies in sellex, supply chain and scale leverage have all led to improvement in margin. GP has gone up by 60 basis points to nearly 56%.

We felt that this is the right time to invest very aggressively behind marketing. We saw opening in the market to fuel growth of marquee brands like U.S. Polo Association and Tommy Hilfiger, etc., to gain salience, gain market share and to grow aggressively. A lot of this marketing investment has gone into online visibility for recruiting new consumers, including younger consumers and consumers in small towns through our wide online reach. Our brands are market leaders across channels, and this market investment will further strengthen our leadership position.

One very happy example of this marketing investment has been investment of Tommy Hilfiger into F1 movie that got released recently. You can see very strong brand visibility and brand association with Tommy Hilfiger in this movie. We saw immediate spurt in brand search and increase in walk-ins with this film association and the special F1 capsule of garments in Tommy Hilfiger got sold super quickly.

AFL has continued its focus on tight balance sheet control with stock turns of 4 and steady management of working capital. Our inventory has never been more fresh than it is currently. We are seeing the results of investment into supply chain improvement and seeing better sell-thru with better quality of product assortment across our brands. In this journey of profitable growth, the PAT in Q1 is at Rs. 13 crores versus Rs. 1 crore in Q1 last year. The growth in PBT is nearly 65%.

We have also benefited from better trading conditions than what we had seen in the last year Q1, where there was impact of general elections. This year, April, May saw more wedding dates and lesser heat waves. Based on

the business we have seen in the initial days of Q2, the outlook remains encouraging, and we are likely to see double-digit growth, which is higher than the growth we have seen earlier in the last one year. Of course, the actual numbers will depend on market forces. There are uncertainties. But with early onset of festivals, we are encouraged by the demand coming from our channel partners.

This is my final investor call as MD and CEO of AFL, and I take this opportunity to express my sincere and wholehearted gratitude to all investors of AFL, to the promoter Lalbhai family who have supported me in the last 19-year journey, where I have led development of Tommy Hilfiger and Calvin Klein business, in addition to rapid turnaround of fortunes at AFL in the last four-odd years. It is great to leave when the business is at such strong momentum and when the ROCE has crossed 20% mark.

I also wish all the best to the new colleagues at AFL, including Amisha Jain, who soon takes over as MD and CEO of AFL; and Satyen, who soon takes over charge as CEO of the PVH part of the business. I wish AFL even better days ahead. I will always root for this Company. Wishing everyone good luck, heartfelt gratitude for support this community has provided to me in this assignment. All the best friends.

Ankit Arora Thanks, Shailesh. Pari, 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 Param Vora from Trinetra Asset Manager. Thank you.

Param Vora Hello, good afternoon. Thank you for taking my questions. Congratulations for great set of numbers. So my question is that with the plan to open

around 150 stores in financial year 2026, so what is the average breakeven timeline for new stores? And what specific regions or cities are being targeted for the expansion plan?

Shailesh Chaturvedi Hi. We are seeing traction for our brands across the country, both offline and online. So we will continue to expand the square foot in top-tier town as well as in Tier 2 town. What we have noticed is that a very, very acceptable brand like U.S. Polo Association, we see demand from every new retailer, every new mall, every new department store across the country, be it Tier 2, Tier 3, Tier 4 cities. So we will continue to use that demand for our marquee brand. Same thing we see for Arrow and other brands like Tommy Hilfiger and Calvin Klein.

So in terms of the geography, we are looking at expansion across cities. Yes, for some of our brands, there's a metro focus, and we will continue to expand in the top 15 cities. But for most of our brands, including Flying Machine and U.S. Polo, we will continue to expand across the country irrespective of the tier of the brand as far as the breakeven is concerned.

Girdhar Chitlangia The usual breakeven for most of our stores is between 12 and 18 months depending on the brand and the city and the catchment.

Param Vora Okay, sir. Thank you.

Moderator Thank you. The next question is from the line of Fatema Pacha from Mahindra Manulife. Please go ahead.

Shailesh Chaturvedi Hi, Fatema.

Fatema Pacha Hi, sir. Great job at U.S. Polo and Tommy and CK. If you could just throw some light on how Flying Machine and Arrow is doing. And we are just trying to figure out how to interpret the minority interest because if CK and

Tommy has done well, definitely minority should have gone up. But I am assuming Flying Machine has had a drag this quarter. Is that fair?

Shailesh Chaturvedi Let me first start with Arrow and Flying Machine, and then I will take on the question on the minority interest. So, as far as Arrow and Flying Machine, what we have been talking about in the investor calls, the situation continues. We are in the journey of improving the profitability from low single digit to mid-single digit. That journey is progressing well.

In this quarter, we saw very good like-to-like retail growth in Flying Machine. We saw very good department store growth in Flying Machine. And also, all the direct channels that I spoke earlier, Arrow, has performed really well in that. And we review the progress every season. And at the end of this season, we will again review the progress of Arrow and Flying Machine on course. And these businesses will continue to grow fast and move towards their mid-single-digit EBITDA, that's the plan.

As far as the minority interest is concerned, Tommy and CK have had a very good quarter. They continued to grow at double digit with very good margin profile. You are right in the sense that there is a third brand in the minority interest, which is the Flying Machine. And given the channel situation of Flying Machine, there is a seasonality impact, and there is a correction in Q1 for Flying Machine, which will get corrected in the Q2. It's a normal business cycle based on the channel mix that brand has. And at the end of the season in H1 you will see good progress in Flying Machine as well.

So, business across the brands has done well. Both Arrow and Flying Machine have delivered double-digit retail like-to-like growth. And we are very, very encouraged by this double-digit growth in the retail like-to-like for both the brands.

Fatema Pacha Okay. So they are pretty much strong growth in those two brands and maybe margin improvement may yet not have come through in Q1, is that fair?

Shailesh Chaturvedi It's a seasonal thing in Flying Machine and both brands are in that journey of mid-single-digit EBITDA growth and they are gaining scale. So, the progress is on, and it's reflects in our numbers, Fatema.

Fatema Pacha And sir, secondly, if you could just tell us how did the sales season on go for us? And in general, if you have any insights on how the consumer has behaved?

Shailesh Chaturvedi I mentioned that we had advertised aggressively which got very good walk-ins, both online, offline, and numbers have been sort of good in our brands. We have delivered very good full price sell-thru. Our discounting has come down by nearly 1.2%, which has increased our GP. So we have been very, very happy, and we delayed because of that the end of season towards the last week of June. We did see slightly early discounting in the industry, but we registered because our sell-thru were very good. We were trading really well. And we gained market share and we gained margin on that.

So we continue to do well. Market share gains have happened. Our like-to-like growth at 8% is higher than what we have seen in industry. Overall growth at 16% is higher than the industry. So, we have done well. And our need for playing a very big role in season end sale is less, and we have discounted less, and we have gained margin because of that. So our inventory health is good. We have never seen this fresh inventory in our business in the past. So overall, the dependence on end of season is less. We are going on sale later than the industry. And we are gaining market

share and we are gaining consumer acceptance. So, all in all, we have had a very good season.

Fatema Pacha Okay, sir. Thank you. If I have questions, I will join the queue.

Moderator Thank you. The next question is from the line of from Chetan from Systematix Group. Please go ahead.

Chetan Hi. Thank you for the opportunity. And congratulations on a healthy set of numbers. Just one question on channel mix. So we are aiming to increase the share of direct channels. And along with it, we also expect the wholesale channel to grow at, say, around 8% to 10%. So what is the optimal target channel mix we are aiming for, say, in the next two to three years?

Shailesh Chaturvedi See, we have addressed this question in the past, and I reiterate that our emphasis is on growing direct channel because the whole north star for us is ROCE, and we see very quick conversion of inventory and cash in direct channel. We get to influence consumer directly. It gives us a very good opportunity to do the assortment of the product the right way. Also, it helps us to use our supply chain intelligence to do the demand planning quite smartly.

So currently, we are reaching close to 60% of our revenue from direct channel. And this business has grown really well in Q1 with very good profitability. Retail has grown at more than 15%. B2C has grown even higher percentage than that at more than 30%. So, this strategy is working really well for us. Our inventory turns have been very good. The freshness of inventory is very good.

At the same time, our guidance for growth towards medium-term growth of 12% to 15%, we believe that our direct channel will continue to grow

close to 15%. At the same time, we believe that wholesale channel, which is the MBO and the department store has an inherent potential to grow at high single digit. In the previous couple of quarters, the growth was not in high single digit, but we have made a lot of efforts. We have changed the inventory, the freshness of inventory in department store, MBO is very good. We have increased our advertising spend very aggressively so that we are top of the mind, gaining market share. Because of that, the department stores and the MBO have also grown. So the wholesale channel has also grown at 10% in this, thereby increasing our overall growth in Q1 to 16%.

So we believe that direct channel strategy is the right strategy and both the channels, direct retail and B2C online will grow. Retail, we will keep expanding square footage. We have a certain goalpost on that. We will continue to pitch for high single-digit like-to-like growth. We are also pushing B2C agenda through a lot of online exclusive with the intelligence analytics backing it. We have omni, we have launched our website of U.S. Polo. So a lot of efforts have gone to keep the growth of direct channels at around 15% above.

Wholesale channel, with all the efforts we have done have revived. Also, the season was good. We had weddings in April, May. All that also has impacted favorably. So we believe that inherent growth of wholesale will remain in high single digits. And thereby, we will be able to grow at 12% to 15% in the medium term. In the short run, we have visibility that double-digit growth is possible. Based on how the market plays out, it could land in 12% to 15% growth. But we are very confident that we will grow at a higher pace because our square foot expansion is going up. So we will continue to grow in double digit. And hopefully, our aspiration is to land in that 12% to 15% guidelines that we have given for revenue growth.

Chetan Okay, sir. Thank you.

Moderator Thank you. The next question is from the line of Deep Shah from Equirus Securities. Please go ahead.

Deep Shah Hi, sir. Thanks for the opportunity. And congratulations on a good set of numbers. Sir, if you see this quarter around, if you see across retailers, apparel retailers, we have seen some moderation in growth. Whereas for Arvind Fashion, we have improved our like-for-like growth on a sequential basis. So, having posted, say, 16-odd-percent sort of a top line growth for 1st Quarter, shouldn't we expect Arvind Fashion doing, say, more than 15% at least in the near term?

Shailesh Chaturvedi See, Q1 has seen significantly better growth than last year. And we have seen macroeconomic tailwinds, the stimulus that government has provided on the tax rate cuts and the interest rate cut. We believe those steps will help the demand environment to get better going forward. We remain aspirational, like I said, for a growth of 12% to 15% trajectory. It's still early days in the year, very early days in the Q2.

Our efforts, the direct channel strategy and all the priming of our growth engines and all our growth engines are in very, very good health and a lot of investment has gone. So, we believe that we will hit double-digit growth for sure. We have visibility for that. Whether it will land into our aspirational goalpost of 12% to 15% will depend on the market condition, how the market behaves, but we are committed to that growth of 12% to 15% in the medium term.

And then in the short run, we see clearly an accelerated growth from what we have delivered in the past and double-digit growth looks possible. And based on how the market behaves, it could be slightly higher or it could be

slightly lower based on how the market forces pan out. But we are feeling very encouraged by the Q1 Results, and we are very encouraged by the early festival and the demand that we are seeing from the channel partners. So let's see how market behaves going forward.

Deep Shah

Okay. Got it, sir. Secondly, sir, you indicated, say, around 20% sort of a growth in U.S. Polo. Can you highlight which were the categories which has been driving growth? In the past we have talked about bottom wear, women wear, so which are the product categories which is driving growth here?

Shailesh Chaturvedi See, we have really looked back in the last two years in the industry, very few brands have seen the level of investment that we have made behind our marquee brand U.S. Polo Association, be it marketing, be it retail upgradation, be it product assortment improvement in the quality, the supply chain, online website that sort of we launched two years back, and the back end, a lot of improvement in the team, etc. So the brand has seen a large investment towards the growth in the last two years. And we are seeing that it's a brand which is firing across channels and across product category.

Now, if you have to single out, I have seen very, very good growth in all the adjacent category in this brand on one side. And we have also seen very large digital growth of business in U.S. Polo. So adjacent category, womenswear, which we launched more than a year has grown more than 50%. The innerwear has started to do very well. It's growing rapidly. kids wear saw more than 30% growth in this quarter. So all the adjacent categories are growing very rapidly.

At the same time, this whole growth of online business, where our pivot from wholesale B2B to more like a D2C online has now seen growth in U.S.

Polo and the growth in B2C part of U.S. Polo is extremely impressive. So, U.S. Polo is seeing good traction. And as per our AFL strategy of growing the business direct through website, through marketplace model, through omni linkages of our store, through better product assortment, through better shopping experience, through growth of adjacent category. We opened large marquee stores in U.S. Polo. We are expanding a large amount of square foot across the tiers of towns. So, U.S. Polo last year crossed Rs. 2,000 crores, and it's growing very, very handsomely, and it is going to be a very, very large brand in India.

Deep Shah

Okay. One last thing, sir, if I may squeeze in. Sir, with say Amisha joining in from Levi's background, who has been a very, very strong brand in bottom wear, so how is the aspiration for the bottom wear brand? Because typically, U.S. Polo is mainly for top wear – casual shirts and Polo T-shirts, so what's the aspiration for the bottom wear? Do we expect bottom wear being a very meaningful driver in the years to come?

Ankit Arora

Kulin, you would like to take that, please?

Kulin Lalbhai

Yes, yes, I can take that. I think denim, in general, if we step back, is a very interesting opportunity for us as a Company because we have three brands, in a sense, straddling very, very different price points. We have got Flying Machine, which is youth focused at a very sharp price point. Then we have U.S. Polo, which has emerged as a top three denim wear brand in all the department stores and multi-brand outlets. So it has risen in rank extremely fast. And then we have the top luxury denim brand in the country with CK. And even Tommy, between USPA and CK, is looking to strengthen its presence in the country.

So, I think we have extremely exciting denim offering as a Company. And in fact, even in our current plans, we are leaning into that category because

we see definitely a large addressable market emerging. There is only one strong brand in the space. So, we want to gain share. And I think in our top-to-bottom ratio, for bottoms overall in the next three to four years, you will see an improved share of bottoms to tops in the Company as we execute on these plans.

Deep Shah Done, sir. Great, thank you. Thanks for the opportunity.

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

Palash Kawale Thank you for the opportunity. Congratulations to the team for good set of results. Sir, my question is on marketing spends, like would you expect these trends to be higher for the whole year as well?

Shailesh Chaturvedi Palash, we have taken a stance to very aggressively invest behind advertising. We see scope of market share gain and higher growth, and we have increased in this one 140 basis point increase. We are committed to this strategy. It's not a one-off. And you see the last year also, we are steadily increasing our advertising spend, our big brands are becoming bigger. So it's a conscious strategy to increase the advertising, remain top of the mind and gain market share. And this strategy will continue in FY '26.

Palash Kawale Okay. Thank you so much for that. And yes, that's also on my side. All the best to you, sir, it has been a pleasure interacting with you over the concall. Thank you.

Shailesh Chaturvedi Pleasure, Palash.

Moderator Thank you. The next question is from the line of Varun Singh from AAA PMS. Please go ahead.

Varun Singh

Thank you for taking my questions. Sir, congratulations on extremely good set of numbers. My first question is, trying to understand the channel performance and expectation of the channel performance in FY26. As you pointed out, 12% to 15% kind of an overall growth. So I mean, in the retail channel I think 8% like-to-like and 16% revenue growth is an outstanding performance. But looking back in history, in the wholesale channel and online and others, how should we look at these two channels with regards to expected growth? Please throw some light on these two channels. That's the first question.

Shailesh Chaturvedi Varun, I just mentioned in the previous question that our strategy is clearly to push growth through direct channel, and there are a lot of strategic advantage of that pivot. And we believe that both these channels will grow at around 15%. Retail will grow through healthy like-to-like growth. If you look at our track record last three, four quarters and even this quarter, we have been delivering better than the industry like-to-like growth.

If you look at Q3 last year, we had 11% like-to-like growth. And then if I look at this year, 8% in the last three quarters, our like-to-like growth is in the high single digit. Also, square foot expansion, we have done a lot of hard work on the ground. We see a huge opportunity to grow the square footage 12%, 13%, nearly 150 stores expansion possibility. We opened nearly 40,000 square foot net in this quarter, and the growth will continue.

Likewise, new retail identity, renovation of stores, better and scientific layout, better shopping experience in retail, all these things are helping us to deliver very good numbers and the growth in retail, and we believe that retail channel can grow at 15%. Obviously, there will be ups and downs. The like-to-like will depend on how the market conditions are. But if the

market remains more or less steady without any terrible news, then we believe that retail will grow at 15%.

B2C pivot is happening. We have consciously pivoted the business from wholesale to retail kind of mindset B2C online. We created inventory online exclusive. There's an analytics that is helping, there are omni linkages, we have websites for U.S. Polo Association. So that business is growing very fast, more than 25% growing. And it will also, combined with retail, will ensure that our direct channel 60% of our business grow at around 15%.

So we have growth drivers which are prime. Adjacent category do not take that much of space in the store, and they are growing. And in online also categories like footwear, innerwear, showing very good momentum. So both B2C and retail are likely to deliver together a 15% CAGR and drive our growth towards 12% to 15% at a Company level in the medium term.

Varun Singh

Sure. So that's very clear, sir. Lastly, I wanted to understand the B2B part, given that 40% of our exposure, I mean, 61% is B2C and retail, we have I think done exceptionally well since the past several quarters, and we would have outperformed the number one player in that category, I mean, from the retail channel point of view. So largely, I wanted to understand from the wholesale channel and the online B2B part, like is it fair to assume 10% to 12% kind of a growth in these two channels? Or we think that we can do 12% to 15% kind of a growth even in these two parts.

Shailesh Chaturvedi

See, I again reiterate the direct channel, our aspiration for 15% growth. We are by far the largest online player in the industry, be it any portal, overall size of business, the Company has invested in online ahead of time. So that engine is working really well, and it should grow based on how the market conditions pan out around 15% minimum.

The question on wholesale, we believe the inherent potential of the wholesale channel, which is MBO channel, which is department store, which is the online B2B, all these put together, we believe this channel set can grow at high single digit. That's the inherent potential of our brand in these channels. Sometimes based on the market, it's less. This time, we have favorable growth, double-digit growth in these channels put together. These channels, our aspiration is to see them grow very profitably at high single digit.

And we will always be conscious of the quality of our growth. In MBO channel, we will always be very conscious about the hygiene. We make sure that our stock levels, our debt levels are very strong. In online B2B also we will be very conscious of hygiene in terms of discounting and other things. So, we will make sure that quality of growth is very, very top quality, high standard, and we want to deliver high single digits in the wholesale channel.

Varun Singh

That's very, very clear, sir. And my second question is on the margin front, given the change in the leadership, I mean, is it safe to assume that the margin guidance and everything that is 100% intact, and we can expect maybe 50, 100 bps kind of an EBITDA margin expansion in FY26? That's my last question, sir.

Kulin Lalbhai

Yes, I can come in here. I think our focus, as we have very clearly said, is to build very exciting brand franchises. And everything that has been carried out in the last three to four years has been along the lines of how to make our brand stronger. So bolder retail, better products and impactful storytelling. These have been the themes that the Company has invested in. And this is leading to organic growth where each of our brands becomes larger, and that is when the operating leverage flows in.

So as we move forward, we are very, very clear that, that is the strategy of the Company. We want to, over time, build larger and larger brands. I think there will be a time in India where even Rs. 2,000 crores, Rs. 3,000 crores is not the largest that a leading brand could be. So we will make our brands bigger and bolder and ensure that as they scale, there is a commensurate operating leverage which kicks in and a stronger OCF profile, which emerges in the years to come.

Varun Singh Thank you very much, sir. And wish you all the very best.

Moderator Thank you. The next question is from the line of Niraj Mansingka from White Pine Investment Management.

Niraj Mansingka Thank you for the opportunity. I have a question on the adjacency, especially the footwear side. Can you give some thoughts on how do you see that growing considering there is a BIS issue, which is overhang on the supplies? And an opportunity where you can take advantage of the brand, especially like a sneaker market or other markets where the footwear is growing much faster in that side?

Shailesh Chaturvedi Hi, Niraj. Niraj, I want to just step back and look at how we, as a Company, built footwear business. There was a large investment ahead of the time in the footwear vertical. We put a dedicated team. We put dedicated footwear experts in the brands which were otherwise largely apparel brands. And that early investment has paid off for us. And very soon, U.S. Polo sneaker became the top brand on the portal like Myntra, etc. And the business has grown at 30% plus in the past. And it's touching close to Rs. 300 crores mark, and our aspiration is to take the footwear portfolio to Rs. 500 crores, very profitably with double-digit EBITDA pre-IndAS very soon.

We had one sort of aberration when the government policy on BIS came and they sort of put restriction on the import of footwear and some additional conditionality, and that impacted the entire industry two years back. And it's taken some time to live life in this new regime and conditionality. And we have moved very fast. We have adjusted our supply chain very, very rapidly. And today, we have now started getting inventory in our stores in the new situation under BIS.

And our brands like U.S. Polo continue to be a leading brand. We do very large footwear in brand like Tommy Hilfiger, Calvin Klein. So that business is now touching close to Rs. 300 crores business. We did see depletion of inventory like the industry saw, that impacted our growth and that impacted our like-to-like in our exciting retail format called Stride, where we sell a lot of footwear. Now the BIS is behind us more or less and the inventory position has started to improve. We expect that next one year time, footwear business will grow very aggressively on a sort of a corrected base and will again move back to a growth phase of around 20% to 25% based on the market conditions.

So this is a very exciting piece, very profitable double-digit pre-IndAS EBITDA and a scale, which could be Rs. 500 crores very soon as the inventory builds up. So it's an area of immense strength for AFL.

Niraj Mansingka Just a related question, how large as a percentage of revenue share can a footwear be for you? Just a thought from your side?

Shailesh Chaturvedi See, overall, if you look at a brand like U.S. Polo, this business can be a Rs. 300-odd crores business for U.S. Polo. Today, the adjacent categories in U.S. Polo are more than 25% and a very large part of that business can be from footwear. So it's what you call first among equal adjacent category. It's likely to deliver more revenue than the other adjacent category,

including innerwear and small leather goods, etc. So it's a very, very important category for U.S. Polo.

Niraj Mansingka Okay, great. Thank you.

Moderator Thank you. The next question is from the line of Gaurav Jogani from JM Financial. Please go ahead.

Gaurav Jogani Thank you for taking my questions, sir. And also, congratulations on a good set of numbers. Sir, one question from my end is, now you have certain scale brands like U.S. Polo now near Rs. 2,000 crores revenue, and also I am believing the Tommy, CK another together would be around Rs. 1,500 crores, Rs. 1,600 crores brands. So what is your outlook on the other brands like Arrow and Flying Machine? How are you looking to scale up these brands? And where are they on the path of the profitability?

Shailesh Chaturvedi So, in regular investor calls we have said that both Arrow and Flying Machine are below U.S. Polo and Tommy, CK in terms of profitability and the strength of the brand, and a lot of efforts we have made to re-energize these two brands. Arrow is a little ahead in that journey compared to the Flying Machine because the effort started earlier there. Both these brands, we had said that they should double their business in the next three to four years. And that journey is on, and we are seeing good growth in both these brands. And we regularly see the progress. The key thing here is to reach a point where from low single-digit EBITDA, they have to reach mid-single-digit EBITDA. The whole portfolio of these two brands has to become a certain PBT level, and that is the strategy to take these brands, grow them faster than the growth of the AFL. When we were talking about close to 100 basis point EBITDA increase, and with higher advertising spend this year, we could be 50-60 basis points. The Arrow and Flying Machine have to grow faster in their EBITDA profile than the average of AFL. And also, if

we are going to grow the Company at double digit, the Arrow and Flying Machine have to grow slightly faster than that.

So that's the plan. There's no change of strategy. We are committed to what we have been saying in the investor calls in the last one year, and the journey is on. We are encouraged by the response we are getting on Arrow and in Flying Machine. We have also done premiumization. We have done renovations. We are building digital assets in these brands. So the journey is on. Of course, they are behind where U.S. Polo, Tommy, Calvin Klein are, but that's also the source of further growth and further profitability for AFL.

Gaurav Jogani

Sure. Sir, related question to this is, I mean, as you have seen house adjacencies have been a greater part of scale up in the U.S. Polo and even in Tommy Hilfiger to that extent. What kind of adjacencies do you think you can play out in both of these brands? And at what journey of scale-up are these adjacencies right now?

Shailesh Chaturvedi

See, we look at the theory behind adjacencies when the mother brands are very strong and then consumer buy the adjacent category. So let's say, if Tommy Hilfiger is a very aspirational brand, then consumer besides the apparel core category, they want to buy a watch from Tommy Hilfiger, for example. Same way in Arrow and Flying Machine, our first priority is to make the core categories thrive, the formal shirt of Arrow or the sportswear shirt of Arrow or the premium 1851 line of Arrow, the places where the brand is marketed, we want to make sure those businesses are in really prime hands or growing rapidly.

And same thing in fine machine, a business of jeans, for example, has to be in the pink of health, and that's what our efforts have been to build the growth of the core categories in both these brands, Arrow and Flying

Machine. Once this happens, we will expand the adjacent category aggressively as a Step 2.

But having said what I have just said, we have not lost on the adjacent category. We built in Arrow, for example, line of small leather goods, belt and wallet. We experiment maybe some other new categories that you see. In Flying Machine, We already have a footwear line, which we sell successfully online, and we are piloting that category, and we will expand that as we go along. So the step is first is to make the core categories really energized, and then we will look at adjacent categories.

Gaurav Jogani

Sure, sir. That helps. Sir, my second and last question is with regards to the strong OCF now you are generating. And even you have also repaid that debt and paid some dividends. Given that the business will only improve from here on and the profitability will also improve, what is your plan of action of using this cash? Would you be completely repaying that debt? Or would you be looking to certain allied acquisitions, maybe not the bigger ones, maybe some smaller ones? Any outlook that you can give here?

Kulin Lalbhai

Yes, I can come in I think here, currently, as we have said, our focus is scaling up our existing five brands. And there isn't any imminent kind of area where we would want to deploy additional capital. So what we have been seeing is whatever is the OCF we are generating is going into kind of repaying the debt. And of course, we have been growing the business aggressively, and we have been wanting to increase the freshness in the business, so we have also been bold as we move in this year into buying fresh inventory, and you are seeing the impact of that freshness even on the growth of the Company. So I think the funds would be used to reinvest it back into growth and retiring debt.

Gaurav Jogani Sure. Sir, if you can help me out, I mean, allied to this only. Last year also, we did generate a good handsome free cash flow of around Rs. 200-odd crores. So what would be the capex plans for at least the next two years that you are looking for?

Shailesh Chaturvedi See, our strategy is very asset-light and for growing our business at 12% to 15% in the medium term. We do not need too much of capital, et cetera. Most of our expansion has been through the franchisee model. And we do some stores in some brands like Tommy Hilfiger, we do our own COCO stores because that business generates a lot of surplus cash, and it's a very smart way of deploying because the ROCE on the store of that brand is very, very high. Other than that, we typically have a very asset-light mindset.

If you look at last year, our capex was around Rs. 100-odd crores. We have a run rate today of around Rs. 25 crores of capex per quarter. And I do not see there is a material shift or change in that strategy of asset-light model. So our capex at an annual level will be in that zone of around Rs. 100 crores.

Gaurav Jogani Sure. So in that context, when I was asking, given the fact that maybe you will be able to generate very conservatively Rs. 5,000 crores of revenue by FY27 and assuming a 10% kind of a pre-IndAS EBITDA margin also. I mean, still you will be generating a Rs. 500 crores cash.

And even if I reduce some interest and some taxation also, still ballpark, you will be generating Rs. 350 crores kind of an OCF. And given that I am assuming Rs. 100 crores capex goes, still you will be left with Rs. 250 crores. And now given that we have only Rs. 225 crores of net debt left, so would it be fair to assume that you will be a net cash Company by early FY27 in that case?

Kulin Lalbhai I think now the debt levels in general is so low that we are not kind of looking at debt as the thing that we have to worry about. But I think whatever is the operating cash flows, I mean, we want the engine to get stronger. And as you are rightly saying, with this increase in profitability, the business should give significant amounts of cash. And in the absence of any target which we feel is very, very compelling, it would be used to reduce debt.

Gaurav Jogani Sure, sir. Thank you, sir. That's all from my end.

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

Shailesh Chaturvedi Hi, Rajiv.

Rajiv Bharati Good afternoon, sir. Thanks for the opportunity. Sir, especially on the departmental and wholesale business, was there any player who was not ordering earlier and they have made a comeback and that is helping our cause?

Shailesh Chaturvedi Rajiv, see, we have leading brands, and we are available in all the department stores, be it the premium department store or the value department store. So there's no kind of a new expansion into new chain, if that's your question. But we have been expanding given our better performance and the fact that we are gaining market share and the ranks of our brands, be it U.S. Polo Narrow is increasing and they are gaining market share. We are getting more spaces with the existing partners. And as they expand into new territory, we are also getting new spaces when they open new boxes. And in the existing boxes, we are getting some more spaces. So the consumer growth in department store in this quarter has been extremely encouraging, very, very good. And our like-to-like growth

also per door has been very, very healthy in high single digits. So it's largely existing payer relationship, but we are gaining spaces and gaining new spaces based on our performance in terms of our market share.

Rajiv Bharati Sure, sir. Sir, an extension of that is AFL stand-alone, which has a big portion of wholesale revenue on the Arrow side, right? And there is a de-growth there. Can you explain, I mean, why the numbers like that?

Ankit Arora Rajiv, we will have to look into it. I can probably take that offline with you. I will have to deep dive. It could be only on account of maybe an intercompany, but otherwise, wholesale channel across all the brands, wherever it is a lot more relevant, has grown in line with the overall channel mix, which is what we have discussed.

Rajiv Bharati Thirdly, on the ad expense side, I see that you already addressed it, but you are increasing your ad spend by close to 55%, if my math is right. Can you just split that by brand, how does it look? Because earlier, PVH used to be a lower proportion as compared to Flying Machine. So are you trying to push again this time around Flying Machine and Arrow more on the ad side also?

Shailesh Chaturvedi So I think it's a conscious aggressive investment across the brands. In this quarter, for example, in Tommy Hilfiger, I mentioned about the F1 movie, and we invested heavily behind that association because one-off time and brand has benefited a lot from that. Also in U.S. Polo and Arrow and Flying Machine also, we have invested heavily in online visibility because online B2C is a very focused priority channel for us and be it the performance marketing or the top of the funnel, we have gone ahead and spend money across that. Given the scale and size of the brand U.S. Polo, a lot of that dollar value or the rupee value goes into U.S. Polo to support that growth. And the business in B2C has grown more than 30% and the advertising spend also is higher basis points. So you can assume that the growth in

value terms will be quite high. But that's a conscious decision we have taken to gain market share and to keep the brand salient and grow the brands aggressively.

Rajiv Bharati

Sure, sir. Lastly, on store closure. So although your area has increased, but I thought in Q4, you didn't have any closure. So that was the end of your closure cycle. How much more cleanup is still left?

Shailesh Chaturvedi

See, Rajiv, you are right that most of the closure is behind us, and that was done. But a small regular closure is part of our life. We will always close some two-odd percent of our distribution as a new mall opens in an area and the old mall becomes less effective or some market forces happen. But it will never become zero, Rajiv, in that sense. It's healthy to look for some closure to keep your inventory fresh, to keep your full price sell-thru high, to keep your like-to-like growth high.

And when you look at profitable growth, some channel because of market forces, some retail does get impacted, and we should always be aggressive in shutting that down. So around 2% of network typically in the industry is done. I do not see major large-scale closure going forward. This quarter, also the closures are typically of small size stores, which have lost relevance, and we are opening bigger and better stores. So it's a net square foot addition, and we have added close to 40,000 square foot.

We are gunning for close to 1.5 lakh net addition this year. So, I do not think there is a big news or story there on closure. It's a regular closure, and we will continue to expand square foot very aggressively. We have done a lot of groundwork. We have a bigger team now. We have identified a lot of areas. So you will see that our square foot expansion will only accelerate as we go forward.

Rajiv Bharati Thanks a lot sir. And thanks for all the inputs over the years, hope to stay in touch.

Shailesh Chaturvedi Thank you.

Moderator Thank you. The next question is from the line of Lokesh Manik from Vallum Capital. Please go ahead.

Lokesh Manik Hi, good afternoon. Shailesh, congratulations for the achievements over the last 19 years, especially the last four years, you seem to have set a very high bar for the new CEO, at least on the ROCE level. So, congratulations on that.

Shailesh Chaturvedi Thanks Lokesh, thanks a lot for your kind words.

Lokesh Manik So, my question, and I am playing the advocate here. So Flying Machine and Arrow has done fantastically well over the last two years and progressing as you guided. But going forward, if God forbid, you see some road block on that and it does not progress to the way you have thought in the next three to five years or the management has thought in the next three to five years. Are we ready to then pull the plug on it, keeping in mind that to an extent over the last few years, it has masked the performance of USPA, TH & CK? So, do we take that harsh call? Or, do we still go through with it?

Kulin Lalbhai Maybe I can take that. Yes, I think there is never any sentimentality about anything in business. I think you have to be setting very, very clear milestones for any business. And we have been very, very clinical. If you see we have exited very large franchises, the day we realized that they are not going to have a path to the ROCE and ROCE is the north star of the Company. So we have done it in the last 5, and we will do the same in the next five, that everything has to achieve the ROCE threshold that is the

hygiene ROCE threshold that the Company has set for itself. The good part in at least the current portfolio is that every brand is moving or showing the momentum and velocity as we speak. If that reality fundamentally changes, then as a Board, we would be looking at it very objectively.

Lokesh Manik Great. And Kulin, have any time line in terms of where you want to review Arrow and Flying Machine by FY26 or FY27, where you need to decide we continue with the scaling or you need to scale it down? Any time line on that?

Kulin Lalbhai We have two kind of rhythms that as a Company, we go through. One is our annual operating plan, and then it is a three-year plan. In fact, we are now getting into our next three-year planning cycle. We just completed the previous three-year plan. So as a part of the next three-year plan, there is a movement. As a part of the earlier three-year plan, at least the good part is many of the milestones, which we had set for ourselves with these two brands have broadly been aligned and achieved.

So as we look at the next three-year time line, we have also told the market that both of these brands have to have a higher lift in EBITDA bps compared to the overall portfolio because they are moving from a lower base. So that is the kind of milestoning that we have done, which Shailesh refers to as that mid-single-digit EBITDA. And that's kind of the north star for these two brands.

Lokesh Manik Fantastic. My last question was just the IndAS impact, if you can quantify for the depreciation impact because of right-of-use assets and interest expense because of lease liability combined for this quarter? Just to get a better sense.

Ankit Arora It will be around 4% on an annual basis.

Lokesh Manik 4% of topline?

Ankit Arora Yes. So you will have to arrive at pre-IndAS, you will have to deduct from a reported EBITDA minus 4%.

Lokesh Manik Minus 4%. That's good. Thank you so much.

Ankit Arora Thank you.

Moderator Thank you. Ladies and gentlemen, due to paucity of time, that was the last question for today. I now hand over the conference to management for closing comments.

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

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

Note: This is a transcription and may contain transcription errors. The transcript has been edited for clarity. The Company takes no responsibility of such errors, although an effort has been made to ensure high level of accuracy.