



“Arvind Fashions Limited

Q2 FY '26 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Arvind Fashions Limited Q2 FY '26 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star, then zero on your touchtone phone.

I now hand the conference over to Mr. Girdhar Chitlangia, CFO at Arvind Fashions Limited. Thank you, and over to you, sir.

Girdhar Chitlangia: Thanks, Huda. Hello. Welcome, everyone, and thank you for joining us on the Arvind Fashions Limited Earnings Conference Call for the second quarter ended 30th September '25. I'm joined here today by Kulin Lalbhai, Vice Chairman and Non-Executive Director; and Amisha Jain, Managing Director and CEO.

Please note that results, press release and earnings presentation have been mailed across to you yesterday, and these are also available on our website, www.arvindfashions.com. I hope you had the opportunity to browse through the highlights of the performance.

We will commence the call with Kulin providing his key strategic thoughts on our second quarter's performance. Post that, Amisha will cover the financial performance and also the business highlights. 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.

Kulin Lalbhai: A very good afternoon to you all. Thank you for joining us for the Q2 results. We are pleased to share that AFL delivered a consecutive quarter of double-digit revenue growth and the highest ever sales and EBITDA this quarter. The demand environment was stable, and we achieved an 11.3% growth led by a healthy 8.3% LTL in our retail channel and around 25% plus growth in our online channel, leading to over 18% growth in EBITDA to INR200 crores, which is an 80 bps margin expansion.

During the quarter, the government implemented the GST 2.0 reform. A large part of our portfolio has moved to a lower GST rate, and we have ensured that the GST benefit has been passed on to our consumers. We believe that the GST reforms will surely improve customer demand in the medium term.

We continue to stay focused on profitable growth, which is helping us deliver on our balance sheet and cash flow KPIs as well with overall working capital continuing to stay stable. We are leaning into our growth drivers and increasing brand visibility through marquee advertising campaigns.

A strong square foot expansion, healthy LTL growth, great momentum in the online channel and the high growth trajectory of our adjacent categories have all helped us maintain a double-digit growth rate for this quarter.

With a strong wedding calendar in H2 and several government initiatives to boost consumption, we remain hopeful of continuing the growth momentum. We will continue to stay focused on our mantra of profitable growth, resulting in further improvement in return on capital employed.

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

Amisha Jain:

Good afternoon, everyone. Warm welcome to the investor call for the quarter ended September 30, 2025. In the quarter gone by, NSV stood at INR1,418 crores as against INR1,273 crores in the previous year same quarter. And EBITDA was INR200 crores versus INR170 crores. In this quarter, AFL delivered yet again an impressive double-digit revenue growth of 11.3% and EBITDA growth of 18.2%. The direct channels contributed significantly to this growth.

Our continued strong efforts to grow direct channels of retail and B2C yielded good outcomes in the quarter. These together now account for nearly 50% of sales, a 5% point higher share over last year. Retail growth is very healthy at 14% with a very good L2L of 8.3%. Retail growth across all brands was in double digit.

We added over 36,000 square feet of retail space in the quarter. Online B2C grew by over 50%, taking its share to 12%, while B2B and other channels, the share dropped to 20% from 22% last year. This is in line with our strategy to pivot away from online B2B. The share of online business crossed 30% in the quarter and a very healthy improvement in profitability.

The wholesale channel growth was minimally impacted in the quarter due to destocking, and we believe that this is transitional and the growth will be back in H2 in these channels. Let me take a moment to talk about GST.

During the quarter, government reduced GST on articles priced less than INR2,500 to 5% from an earlier 12% rate. We rolled out the changes required by the government to implement the GST reforms 2.0 with immediate steps to pass on the GST benefits to the consumer. Our IT systems were upgraded to reflect exact prices -- price changes as directed by the government.

Clear price communication was rolled out across all channels. These reforms will leave higher disposable income in the hands of the consumers, and we expect these reforms to have a positive impact on demand.

At the brand level, U.S. Polo continues to grow exceptionally at 21%, led by impactful advertising campaigns, work done on products and opening of marquee stores in new retail identity. Growth in other brands was muted due to impact of transition to the new GST regime.

I'm happy to share that one of our key adjacent categories, footwear grew by over 25%. We believe that the disruption caused by the implementation of BIS norms is now behind us. Overall,

the adjacent categories grew by 22%. Among the other metrics that showed improvement are inventory freshness and gross margins.

Inventory freshness is at an all-time high of more than 85% and gross margin improved by 210 basis points. We continued our focus on advertising campaigns, which were higher by 20 basis points. Among the balance sheet metrics, inventory buildup was to cater to early festive onset, while overall working capital remained stable. It will normalize by the end of the year.

The growth in EBITDA at AFL in Q2 is at 18.2%, an 80 basis points improvement despite higher advertising and employee costs. Reduction in retail discounting by 90 basis points, richer channel mix, cost efficiency in select have led to improvement in margins. GP has gone up by 210 basis points to nearly 53%. In this journey of profitable growth, the PAT in Q2 is at INR37 crores versus INR30 crores in Q2 last year. The growth in PBT is nearly 31%.

Now as we enter H2, we expect positive traction due to the upcoming wedding season. We're happy to share that there was double-digit growth during Diwali and Puja in our direct channels. We will continue to open new stores and are on track to deliver new store addition target for the year as well.

We also expect that the government initiatives will aid higher consumer disposable income, leading to a demand improvement across our categories. The outcome will, of course, depend on the market environment. Thank you.

Moderator: Thank you very much. We will now begin with question-and-answer session. The first question is from the line of Deep Shah from Equirus Securities.

Deep Shah: Congratulations on good set of numbers. So firstly, if you can call out how the different brands have performed during the quarter? Because seeing the wholesale numbers, I think so Arrow and Flying Machine are still under pressure. So if you can first call out how the different brands have performed? And secondly, any read on the festive? I think Amisha gave a brief around the festive, but if you can further talk about how the festive has been?

Amisha Jain: Sure. So I think if you look at our brand portfolio, as you have seen, we've clocked a pretty strong sustained growth across the portfolio at 11.3%. And if you look at from that, the key driver of the growth is obviously coming also from our direct channels. Coming down to -- and that includes both our retail and our B2C channel. And this is in line with our growth drivers and the strategy that we've put together.

Now coming down to the brand, U.S. Polo has clocked an extremely strong double-digit growth, which is close to 20% upwards. And while -- this has been driven by a lot of work that has gone into it, more around product innovation, premiumization, driving a new retail identity and obviously, the driving new store openings.

Having said that, we've continued to see strong growth across our PVH portfolio as well. And Arrow and Flying Machine are also sort of driving and are going in the right direction based on

the strategy that was put together. The important thing to note is that in this quarter, towards the fag end of it, the GST reforms were put into place.

And while there was a minor transitional impact because of that because of wholesale destocking, we do believe that this should streamline over a period of time over the next quarter. So all in all, I think we believe that we are on track from a strategy point of view, driving early double-digit growth, and that's where we will continue to be.

Deep Shah:

Okay. And second question would be around, Amisha, I understand it will be too early to call out, but how has been the experience at Arvind Fashions, what are the key learnings which you have in the last couple of months? And what are the key strategy which you will work upon in the coming times?

Amisha Jain:

Sure. So I think for me, coming back to Arvind has been homecoming, right. So coming back, has been the same as my prior experience. What I see and what is heartening is that there is a clear focus and strategy behind what we're doing. As you know that we've been talking about driving our direct channel strategy. And what we have seen is a very strong focus towards that.

We have a portfolio of 5 brands, which is extremely strong, and I think the teams are really geared up to drive behind that. So from my experience and where I see us going, if I look ahead, I think a few things are extremely clear.

One is that we will double down on our portfolio of 5 brands. We believe that there is significant headroom for growth by ensuring sharp brand positioning, driving differentiated products and delivering great end-to-end experience across our brands.

I think it is imperative for us to ensure that we're able to now sort of segment out our consumer cohorts across these brands and able to cater to those consumers in the way that they would like for us to speak with them. So that will be one part of it.

The second big thing that we will drive and what you have already seen great results coming out of is our diversification of our portfolio. We will continue to double down on that. It's been working -- and if you look at our portfolio between footwear, innerwear, womenswear, it's been working well. I believe there is significant room to grow over there as well, and we will consider accelerating that part of it.

What's going to be important for us over here is to ensure that we are investing behind the right demand spaces based on where the consumer preferences are and how the consumer preferences are shifting. So you will see us kind of drive that as well.

I think the third thing that you will see us do is with consumer at the center of everything we do, we will continue to double down on how we serve the consumer. And this is going to be important to ensure that we capture any shift in consumer preferences. We will drive segmentation, be extremely data backed. And with that, we will drive enhanced marketing capabilities to ensure that we are serving our consumers better.

We will also double down in terms of serving our consumers through the channels that make most sense to them. And that, along with the strength of our portfolio, along with our investment towards the adjacent categories, we should be able to see accelerated growth in our portfolio.

Now coming back to H2, I do believe that we have a great strategy laid out. We have a strong plan and our teams have been at it in terms of delivering against it. So we do believe that we'll continue our focus on our growth drivers as we've laid out earlier as well. And while we do that, we will continue to push for a better experience for our consumers as we expand our retail as well.

Deep Shah: Thanks and congratulations on this set of numbers.

Moderator: The next question is from the line of Priyank from Vallum Capital.

Priyank: First, on the question of with a strong SSG growth of 8%. Along with -- coupled with gross margin expansion of 200 bps, why don't we see that percolating down to the EBITDA margin expansion? I mean this model has a significant operating leverage. We understand that.

And I also heard that we have been investing into advertisement. What are the core pockets post gross margin, which are dragging down the changeover that is required to be seen with SSG coming in as well as with the gross margin expansion?

Girdhar Chitlangia: Priyank, this is Girdhar. You see the large part of the growth in quarter 2 came from the direct channels, retail and online B2C, both have an attendant commission as a cost, which becomes part of the sellex. So the flow-through is after that. We also continue to invest in marketing, which was higher again by 20 basis points.

Having said that, I think our focus has been to reduce discounting, which reduced -- which we improved in the last quarter. And going ahead, we will continue to focus on the same. Cost improvement is another lever which we continue to work on. But what is taking away the gross margin is the commission and some of the variable sellex that come along in the retail and the B2C channel.

Priyank: Got it. And why there is a drastic shift in the employee cost over the last 2 quarters that we witnessed. Almost 20%...

Girdhar Chitlangia: Yes, Priyank you have to look at the employee cost on a sequential basis. This July, there has been, of course, a salary correction for the company. So that is around 10%. And the quarter-on-quarter growth on cost is 18%. So 10% is explained by that. And the rest of the cost is largely due to a changeover in the management, and there are certain onetime fixed costs, which came along with that. We hope that this will be normalized in the coming quarter.

Priyank: Got it. On the strategy side, on the wholesale, I heard that there was a destocking this quarter. But if we were to look on the long-term trend of the wholesale on the 3 year basis that it has not grown. It has remained in fact flat. So I'm not sure where was the destocking element coming into it? Was it something else to think of it on the wholesale channel? And what would be the strategy ahead?

Amisha Jain:

So if you look at our wholesale channel, first of all, when we look at the consumer sales, we have seen high consumer sales. So there, we have seen improvement. In terms of department stores as well, we saw a strong growth.

Only in the MBO channel, there has been a marginal impact due to destocking as a result of GST transition. But from a consumer sales point of view, I think both the channels have shown pretty healthy growth. So from a growth perspective, we expect a high single-digit growth going forward.

Priyank:

One last question. Amisha, there has been a few targets that we have been chasing, and I'm sure we are now following those. There are a few targets which are unmet. Any key changes that you think that you will have to do it in your own lens, maybe in a different way or maybe different things to be done. Anything that you would want to highlight on that?

And I heard you on your strategy part saying that there would be the investments that would go through in the channels as well as marketing. So how should we think of EBITDA margin expansion also? A 2-sided question, one on the overall few targets that we were thinking of on the long term and on the EBITDA margin side?

Amisha Jain:

So, thank you for your question. As I talked about, I think we've kind of laid out and I mean, currently, our strategy in terms of driving some of the core pieces. If you look at it, we've been after going after places where the consumer is already. We're investing behind our direct channels, both on the retail side and on the B2C side, right?

Retail has been driven for like-for-like sales and the net expansion of retail. At the same time, we've been driving through the B2C strategy. So that part of it, I think, is on point. And as the consumer shifts, we'll be able to capture some of that very, very easily.

Now as we talk, we are in the process of building out our 3-year strategy. And we are -- as the team and I kind of work this through, we should be able to present this to the Board in the next 4 to 5 months. Having said that, as I said earlier, I think our intent here is to make sure that we are aligning more closely with how the consumer preferences are shifting.

So from a strategy point of view, I'll kind of reiterate one thing that if you look at our portfolio and if you look at the strategy that we've had, I believe that we have a strong portfolio that kind of straddles through price points. So now the question is, how do we make sure that we go after a very sharp brand positioning, drive differentiated offering and deliver a great end-to-end experience for these consumers.

Now while we do that, we also want to make sure that to the same set of consumers, we are able to expand our offering. So from a wallet share, etc., point of view, our adjacent categories have to get harder, and we will start serving them through the relevant demand spaces. We'll make sure that we're serving consumers. And we are going after the Gen Z. We're making sure that our overall offering sort of caters to the preferences of the consumers.

The third critical thing, and I think the point that you pointed out as well, is for us to ensure that whatever we do, we will keep the consumer at the core of it, right? So segmentation is going to be a very critical strategy for us. We're going to get more and more data backed and enhance the marketing capabilities. So while we do that, we will obviously double down on investing behind demand generation, but we continue to focus on EBITDA.

So to the point on EBITDA, I think the company has been consistently following a certain strategy, and we will continue to do that. We have earlier also mentioned that we would like to maintain our EBITDA delivery in the zone of about 50 to 80 basis points. And as we build out our strategy, that's the direction we will take.

Priyank: Sorry, one just clarification. On the diversification part of the portfolio, which you were alluding to, where you said that you had a significant room to grow, would it be within the brands or if required, we can think of additional brand acquisitions also in the portfolio?

Amisha Jain: So see, I think going back to what I was saying, I do believe that there is headroom within the core categories in our brands itself. So we will make sure that we will go after that. And like I was saying that we will make sure that from a consumer point of view, we are serving the consumers across different consumer cohorts.

But having said that, we do have an opportunity to look at adjacencies within our brand. So the adjacent categories within our brand portfolio, we will go after that and ensure that we are able to cater to these consumers based on their needs and preferences. So as consumer preferences shift, we want to make sure that through our adjacent categories for hypothetically footwear, women's, etc., we will continue to cater to them.

To the second question that you asked that are we looking at outside of this. See, as and when a decent strategic opportunity presents itself, we are open to looking at it. And that is something we will always look at closely and see if it is strategically aligned to what we are after.

Moderator: The next question is from the line of Avinash from Motilal Oswal.

Avinash: Congratulations on good set of numbers. So my question is regarding the standalone business. If you look at it, like that's the one which operates the Arrow wholesale entity. So that segment has reported 3% of decline on the 1H to 1H basis. So what would be the reason behind that?

Girdhar Chitlangia: Avinash, this is Girdhar here. Can you repeat the question, please?

Avinash: Speaking for the standalone entity. So the standalone entity has recorded a 3% revenue decline on a 1H to 1H basis. So what would be the reason behind this? Standalone is the one that operates Arrow business, right?

Girdhar Chitlangia: Yes.

Avinash: So for the first half of FY '26, the stand-alone entity delivered INR350 crores of revenue. This was down 1% Y-o-Y?

- Girdhar Chitlangia:** Avinash, the primary reason Arrow, of course, the retailing is -- you're aware, is based in the subsidiary, right? This represents primarily the wholesale business. And as Amisha said earlier and we mentioned, I think at the end of the quarter, there was some kind of a destocking or I would say, delay in the billing to the wholesale channel. And that is why you are seeing a very muted growth there.
- Avinash:** I mean not for the second quarter, even if I look on a 1H to 1H basis, even then there's a 3% decline?
- Girdhar Chitlangia:** But largely, this can be explained. You see H1 is a reflection of what happens in quarter 2. And quarter 2, we were impacted by the wholesale billing Avinash.
- Avinash:** Okay. I'll get back with you on that. Second thing is like we are adding a good number of store additions, but the store closures were also there. So in the first half, we have closed somewhere around 35-odd stores. So to which brand are these stores pertaining to?
- Girdhar Chitlangia:** So Avinash, we added 24 stores and we closed 16 stores. The stores that have been closed are largely small stores, and you will see that we have still added 10 stores net addition, but the total addition is 36,000 square feet. So we are shutting down a few of our small stores and adding larger stores. Having said that, the large chunk of the new store additions is coming in U.S. Polo.
- Avinash:** Okay. And the store closures, is it specific to single brand or...
- Girdhar Chitlangia:** So they are there across all the brands. We are actually kind of rationalizing our store size. And you must have noticed that, that has happened over the last 2, 3 quarters.
- Avinash:** Okay. Got it, sir. And last question is that can you throw some light on the footwear segment? See, we know that the segment has an annual run rate of somewhere around INR350 crores. So what's the outlook there? What is your near-term and long-term vision for that segment?
- Kulin Lalbhai:** I think if I can come in here, I think the last couple of years, the footwear business was impacted by the BIS regulation. And before that phase the business was in exponential growth trajectory. I think what is very heartening is that this is a business now which has come back to high 20s sort of growth rate.
- And we still believe the business will catch further momentum as the entire supply chain stabilizes. So this is one of those growth drivers, which I think will be a very large one for the company. We would actually expect to hope to double the size of the company of footwear in the next 3 years or so.
- So I think it's a very exciting space where we have built very unique capabilities. I think the product market fit we have got in the sneaker business is very, very unique. So we are leaning in very heavily, and I think the growth is now coming back with the BIS disturbances behind us.
- Avinash:** Okay. Got it. And one small question regarding the footwear. Is it like entirely 100% retail business or do we also have a distribution or in the footwear ones?

Kulin Lalbhai: There is a little bit of key account business, but we don't do multi-brand in footwear. We do online both wholesale and direct. So we don't have an MBO business in footwear.

Moderator: The next question is from the line of Ashutosh from ICICI Securities.

Ashutosh: So my first question is on the overall apparel sector. So we have seen that last year, it was largely impacted by cut in the discretionary spends. But now there seems to be a growth momentum coming in, especially for the premium brands, even like other premium retailers have also highlighted a similar trend. So is my understanding overall correct about the premium segment?

Like I understand that there has been personal tax cut, and the recent GST cut, which is definitely aiding growth. But apart from that, is there any other consumer sentimental shift that is happening or there are a few internal drivers that is making this shift? So anything on this would be really helpful?

Amisha Jain: So as you can see, we've obviously continued to clock pretty solid growth. And if you look at our H1 between Q1 and Q2 both, I think we've seen consistent growth. Now there are 2 parts to it. Yes, there has been a macro impact.

So from a stimulus provided from the tax cuts that have come in and also very recently with the GST reforms coming in, we do believe that this puts sort of a stimuli behind the consumer demand in general, and we're expecting that this will continue in the medium term. So that's one part of it.

Having said that, from our perspective, we have always been talking about one thing is that we want to make sure that we're catering to our consumers from a solid premiumization point of view. And if you look at our portfolio, we've been premiumizing across our brands, and that is something that has really worked for us. So that is a definite trend.

And also our brands are strong and they are catering to segments which are actually trading up. So that's an important part of it. Having said that, I think one key lever and something that consistently has been our strength is our product innovation.

And if you look at our brands and let me take the example of U.S. Polo.

We've been after improving and while increasing from a premiumization point of view. But at the same time, you'll see a lot of innovation that has come in the brand as well.

And that is the consistent story if you look at Arrow as well.

I think in terms of bringing in whether it is coming through the lines of New York or Elixir or whether it is putting or investing behind our franchises like Autoflex, we've been consistently after innovation. So that's driving some of the growth in our brands as well. And Tommy and CK are much loved brands. We sit in a premium segment and both of them continue to show strong growth as well.

- Ashutosh:** Okay. Understood. Very clear. So my next question is on the channel. So like I heard that the retail focus is there, and I guess it's already around 43% of the total revenue. So I just wanted to understand what would be the optimum mix between these channels, especially the retail going forward? So it's already at 43%. So -- and you have highlighted that there will be like 100 to 200 basis points of improvement in retail plus online this year. So -- but what after that?
- Amisha Jain:** Yes. So I think I'll kind of take a step back. And when we look at how we want to go about, again, addressing the consumer needs, the one important thing for us is to make sure that we are able to talk to our consumers, are able to learn insights, are able to pivot quickly and are nimble enough to adjust to the changing preferences of the consumer.
- Now as you think about that, I think fundamentally, what you need is to be really close to the consumer. And that is driving our strategy. So we will continue to build on our retail strategy, which is making sure that we are catering to the consumers directly through our retail channels. At the same time, we will continue to drive through our online B2C business as well.
- Our aspiration is to take it from today, both of these put together are about 50% share of business. Our aspiration is to take it upwards from there and make sure that we are able to get to about 50% to 70% range in over the next few years.
- Ashutosh:** Okay. Understood. And is it possible to give a broad profitability across the channels, a broad range is fine?
- Kulin Lalbhai:** I think the right way to look at this is to look at the return on capital employed. I think that is the North Star for us in this business. And these direct models have, in a sense, a very good capital turn cycle. And on most of our channels from a channel contribution perspective, range between 20% to 25% channel level profitability.
- The channels which are at the early 20s tend to be more gross working capital light and the channels which are a little bit on the higher side of the 20% to 25% bucket tend to have a higher gross working capital. So net-net, from a ROCE perspective, I would say our direct channels are slightly more ROCE accretive. And that's why you are also seeing over time that the ROCE of the business is inching up as we scale up.
- Ashutosh:** Right, right. And just one more question. Is it also possible to broadly give a revenue split across or maybe the share split across the 5 key brands?
- Kulin Lalbhai:** We don't give brand-wise details. We've mentioned this also in the past. So some of this is competitor sensitive information. So whilst we are giving you a broad perspective of brand performance, we won't be able to get into specific numbers.
- Ashutosh:** No problem, sir. And sir, sorry, one last question. So you have mentioned that the inventory turn is at 3.8x right now. So do you think that this is already at the optimal level or there is still scope for improvement? And if there is any scope, then what would be the drivers for this improvement?

- Girdhar Chitlangia:** You see, I mean, there is always scope for improvement. The biggest driver could be faster deployment of our returns and obviously, inventory turns in some of our retail stores. Both these put together we are quite optimal and we are at the industry best standards, I would say. But 5% to 7% improvement is still possible, which can happen over the next 12 to 18 months.
- Moderator:** The next question is from the line of Chetan from Systematix Group.
- Chetan:** And congratulations on a good set of numbers. Just wanted to understand, so our adjacent categories have seen a strong growth of, say, 20% plus during the quarter. Can you highlight how the performance has been for the core apparel business for U.S. Polo and Tommy CK? And do the adjacencies, as you explained for the footwear, do other adjacencies have any substantial presence beyond our EBOs? And if so, then how is the performance over there?
- Amisha Jain:** So if you were to look at our brand portfolio, while we've clocked a very hefty growth overall, U.S. Polo continues to clock upwards of 20% growth. And that is also coming on the back of everything that has gone into it. So from product innovation, premiumization, retail expansion. And that is obviously coming from the core part of the brand, .
- The core part of the portfolio is actually hitting it quite hard right now. So it's not just the adjacent categories that's driving growth in U.S. Polo, but overall growth is being driven from there. And in terms of Tommy and CK, I think like we said, I think they've been maintaining a growth momentum, and we expect this to continue over a period of time as well.
- Like we've also called out earlier, as the consumer is trading up, we are seeing that these 2 brands are obviously extremely strong from a brand positioning point of view, from an offering point of view, and we expect to see a trend of growth over there as well.
- Chetan:** Okay. And on the adjacencies part, like, how -- like is it present beyond EBOs? Like for footwear, you had explained it, right? For other adjacencies like innerwear, women's wear, kids wear?
- Amisha Jain:** Yes. So kids, we cater to through kids all channels. In terms of innerwear, we are catering that through the overall all channels as well, and it has a significant presence between MBO, online, retail, etc.
- Kulin Lalbhai:** One of the interesting new adjacencies, which is a big focus area going forward is also going to be women's wear. It is the last adjacency in a sense to be launched. It's early stage of its journey, but very encouraging growth vectors in that part of the business as well. So I mean, that's a future bet where one should see high scale up coming in the years to come.
- Moderator:** The next question is from the line of Nihal Mahesh from HSBC.
- Nihal Mahesh:** I have 3 questions. First is on Flying Machine. So there is an improvement in the LTL growth there. Just wanted to understand the initiatives that are driving the improvement in that brand?
- Amisha Jain:** Sure. So I think see Flying Machine has been a journey over the last couple of years. And with Flying Machine, what is heartening to see is that we believe the brand's growth is going in the

right direction. As we sharpen our positioning, we actually have gone ahead and improved the product range that is out there, and we are also looking at the channel to serve from a consumer point of view.

So from all of that perspective, Flying Machine has been a complete 360 effort. And we seem to be seeing solid like-to-like sales and a good initial indicator from our overall retail and a channel portfolio point of view as well. So we're quite pleased to see the direction in which the brand is going.

Nihal Mahesh: Sure. And talking about the last 6 months, is the overall growth in the brand also strong or is it that maybe because of the shift in channels that we are focusing that the retail growth is strong, whereas maybe the online business is seeing a bit of a pushback?

Amisha Jain: I think it's a function of product and consumer. So I wouldn't kind of look at it as an either/or. What we're seeing is demand across channels.

Kulin Lalbhai: One of the channels within FM, which we have strategically deemphasized is the online wholesale. So whilst we are doubling down on direct online, we are reducing or have reduced the scale of the wholesale online business. So that's, I would say, the only channel where there is an adjustment happening, but all the other channels, as Amisha was saying, are being pushed for growth.

Nihal Mahesh: Point taken. The second question was for Arrow and Flying Machine combined together, possible to get a sense of where the EBITDA is and what is the target to take it to what range over the next 2 to 3?

Amisha Jain: Yes. I think we've kind of stated this earlier as well. The target to take Flying Machine and Arrow is in the mid-single digits. And with the efforts that have gone behind both Arrow and Flying Machine and Arrow is a little ahead in its journey.

But with the effort of ensuring a strong brand positioning, aligning to from a consumer point of view, aligning the product along with it and ensuring that we are segmenting again from both the channel point of view and a consumer perspective, as we drive that, we believe that Arrow should continue to see growth, and we should see, again, strong productivity coming out of there.

Kulin Lalbhai: And as we had mentioned earlier, both these brands will see a higher improvement in bottom line year-on-year compared to the rest of the portfolio. So every year, we kind of have set a business plan accordingly so that the trajectory goes towards what Amisha mentioned. And I think it's heartening that both brands for this year are on track for those kind of improvements.

Nihal Mahesh: Just one follow-up here, if it's possible, what has been the improvement Y-o-Y in the first half for these 2 brands?

Kulin Lalbhai: Sorry?

Nihal Mahesh: What is the overall improvement for our Flying Machine and Arrow for the first half, if it's possible to share that ballpark?

- Kulin Lalbhai:** So I won't get into exact specific numbers, but broadly, we had said that if at a company level, operating leverage has been b 80 to 100 bps, these 2 brands need to have a certain order of magnitude above that. So that's the way their business plans also reflect in terms of percentage EBITDA margin improvement. So, we believe that we are on track for that this year.
- Nihal Mahesh:** Understood. Just one last question that Amisha in your remarks...
- Amisha Jain:** Sorry.
- Kulin Lalbhai:** Your audio isn't clear. Can you just maybe get a bit closer to the mic or something?
- Nihal Mahesh:** I was asking that, Amisha, you did mention about the fact that if opportunity ever comes up beyond the adjacencies and existing brands, it would be considered. In that backdrop, considering we've sort of become cash flow positive, net cash positive this year, is there a thought that only the existing flows that the business generates would be used for acquisitions or like what is the limit that the business is thinking in case ever an acquisition is planned?
- Kulin Lalbhai:** I think right now, we believe that as we are scaling the business, the operating cash flows are moving in the right direction and materially so. And as Amisha mentioned, current focus is on really ramping up the current portfolio. If and when an opportunity arises, as she mentioned, we will be open, but we are not expecting any major capital event, if that is what you were kind of asking. I mean, right now, we don't believe the business will require external capital to support its strategy. I think the OCF is heading in a very positive direction.
- Moderator:** The next question is from the line of Kaustubh Pawaskar from ICICI Direct.
- Kaustubh Pawaskar:** Congrats for great set of numbers. Most of my questions have been answered. I have a few -- couple of questions. First on Amisha's initial comment of inventory freshness, which is at all-time high of 85%. So, I would like to hear from you, what was it earlier? And just your thought on how it is helping you or what led to this inventory freshness or what are the strategies which is helping you this freshness and whether this strategy is only pertaining to a few brands like U.S. Polo, Tommy Hilfiger or it is across your portfolio of brands?
- Kulin Lalbhai:** Maybe I'll take this question since I can answer on the transformation journey over the last 3 years. I think this has been the heart of the transformation effort that the whole team has worked on, which is getting the fundamental flow of inventory right. And that means, one, starting with really creating strong, differentiated, elevated products. I think across the portfolio, a lot has gone into getting the product engine to really fire.
- And closely associated with that is to really drive full price sell-through. I think we have seen a significant improvement. In some brands, the sell-throughs have gone up by as high as 6% to 8%. In some brands, it has gone up by 3%, 4%. And that means you are going to have a lot less old inventory left in the system post end of season sales. Another big work that the company has done is on balancing its channels.
- So we have very successfully built Megamart as our in-house liquidation channel. And today, a very, very effective channel for us to realize very high value on the end of season left

merchandise and with very, very high amount of cash conversion. So it's a very quick, very beautiful, efficient channel.

So in a sense, it's been a 360-degree effort right from product to planning to driving the retail and ensuring the liquidation channels perfectly being balanced and that has meant us moving from a late 60s, early 70s to as high as 85% below 1 year. And that is what is reflected then finally in lower discounts and higher LTL.

So these are, I think, the fundamental health parameters of the business, which have seen this big transformation. And I think what is heartening to see is that journey is still continuing, and we are continuing to see the benefits of that and still moving towards better numbers on this front. ,,,,

Kaustubh Pawaskar: That is helpful. Sir, my second question is on Flying Machine. So adjacencies we have been seeing in most of your brands. So in denim especially, are we looking at some kind of adjacencies, which might help us to kind of revive the growth in the -- denim as a category?

Amisha Jain: Yes. So I think, look, I think from a flying machine point of view, I think fundamentally, first, we want to make sure that we work on our core categories. And as we get -- and I think I've kind of addressed this earlier as well, as we get much sharper with our brand positioning, as we look at serving the consumers through the channels of their preference and putting out products that's relevant.

I think that's been the core focus, and we will continue to drive the core part of the business first. I mean adjacencies will come in later. But at this point in time, I think what we are looking to do is to double down on the core.

Kaustubh Pawaskar: Right. So just to better understand, double down on core, will it be more from the product portfolio innovation point of view or having a correct pricing for the product what is available currently in the portfolio?

Amisha Jain: Okay. So I think when you talk about both product and pricing, right, I think fundamental question goes back to who is our consumer and who are we catering to. So, as we look at our consumer, as we look at the cohorts and the demand spaces around it, we will make sure that our product portfolio and the pricing lines up against it.

It's always going to be a strategy of ensuring that the product portfolio is right from a consumer cohort point of view. Having said that, we will also then marry that with the channel that is relevant to these consumers. So as we go forward, we will make sure that we are firing on all 3 pillars, which is the product, the brand and the channel.

Moderator: The next question is from the line of Varun Singh from Alfa Accurate Advisors.

Varun Singh: I have 2 questions. First is regarding second half. So given that we have added around 50, 53-odd stores in the first half, are we in a comfortable situation to add maybe 100 stores in the second half?

As we've laid out, retail expansion is a very critical part of our strategy, and that kind of includes 3 things. We want to go after renovating, relocating and upsizing as deemed right from a market and catchment point of view. So that's the fundamental thing we are behind.

Now as we look at our BD and as we look at our retail expansion for H2, the answer to your question is we've doubled down our investment from a team and from how we're going about it over the last couple of quarters.

And we feel that we are on track, and we should be able to land closer to our total net square feet addition that we have planned for. And as said earlier, we've kind of put a target for ourselves, which is in the zone of about 1.5 lakh net square feet addition. We feel that we are actually doing well towards that target.

I will also highlight that I think it is less about the number of stores, but having the optimal size of stores, the stores in the right location, I think those are the critical parameters at this point in time.

Varun Singh: So, Amisha, I think 150 store addition guidance and maybe 70-odd store closure, which is what has happened in FY '25, I mean gross addition was 120 and 74 was store closure. So 1.2 or 0.12 million is what we added. In FY '26, I think we are supposed to add 0.17 million square feet, not 0.15. And in case you say 0.15, then does that mean that we are reducing the guidance?

Girdhar Chitlangia: So, we are in line to what we guided earlier. We added 74,000 in H1, and we are pretty confident that we will add the rest of it.

Varun Singh: Okay. Okay. So roughly 100-odd stores, we should be able to add in second half?

Girdhar Chitlangia: We are working towards that. We have got a good pipeline of stores, and we are hoping that we will do that.

Varun Singh: All right. Okay. And secondly, the new stores that we are adding, I mean, from the current quarter number, that calculation that we could do is around 3,000, 4,000 is what the number that I could see. Please help us understand that whatever new store addition that we are doing, that is of what size because system level average store size is around 1,200, 1,300 square feet?

Girdhar Chitlangia: So our new store additions are anywhere between 1,200 to 2,500 square feet and depending on the type and the offering and the catchment. Some stores, we are actually adding marquee stores and some Club A stores, which are larger. But the rest of the stores are our normal average size between 1,000 to 1,200 square feet.

Varun Singh: Okay. Okay. And just wanted to understand on EBITDA margin that I think earlier we guided that 50 bps margin expansion is what we should expect in FY '26. So, from [inaudible 0:53:00] in FY '25, 50 bps expansion is 13.5% in FY '26. And given the first half that we have -- I think the required run rate in second half is 14% or more than 14% EBITDA margin.

So is this number -- I mean, are we comfortable with 14% kind of an EBITDA margin in second half given that Amisha also called out regarding A&P investments, etc., to also be on the strategic cards for driving growth?

Girdhar Chitlangia: So, what we had guided earlier in terms of EBITDA margin growth, we are pretty confident of achieving that.

Varun Singh: We are confident of achieving that. So I think in first half, 12.6% EBITDA margin, second half 14.3% is what the number coming up. So I think we understood. And one last question on the online part. I think you called out that we are defocusing online wholesale business.

But in the current quarter number, I could see that your growth for the online B2B has been much higher compared to online B2C. So I mean, how should we understand the reasoning for this growth and the defocus that you mentioned, consequently the...

Girdhar Chitlangia: Varun, if we look at our investor deck and the numbers that Amisha also said, both are in line. Online B2C actually grew faster, almost like 50% and online B2B degrew, sorry, it did not degrew, but it grew much lesser actually, 10% only.

Moderator: The next question is from the line of Rajiv Bharati from Nuvama.

Rajiv Bharati: Girdhar, you mentioned that employee cost on a Q-on-Q basis would have been 10% higher otherwise, if not for that the management change. So if we adjust for that, the gross margin -- the EBITDA margin expansion would have been close to 90 basis points. And is that the sustainable number which you are, let's say, shooting for at least for this current fiscal moving forward as the employee cost normalizes?

Girdhar Chitlangia: I mean mathematically, what you're saying is right, Rajiv.

Kulin Lalbhai: Yes, maybe I can come in here. I think the last 3 years, we have consistently been more than 100 bps operating leverage in this business. And one slight difference in the next 3 years, I would say, is while fundamentally, we can continue in that trajectory because we've got further operating leverage coming in and some of the lower-performing brands are moving up faster, we intend to up our marketing spend.

And that's, I think, something we have mentioned in the last couple of quarters that our percentage of marketing as a percentage of sales is being taken up. So in a sense, we are taking a bit of that operating leverage and investing in future growth.

And that's why I think depending on which quarter, possibly the range of operating leverage you would see would be somewhere between 50 bps to 100 bps. It could go up and down because of the way the marketing is going to play out and the way we are investing in the brand.

Rajiv Bharati: Sure. I mean you partly answered it, but considering that last year also, I think on the AFL side, we have grown at 13% and we barely saw any operating leverage on that entity. And now we have -- on the retail side, we have grown at least 20% on USPA side. Would we expect operating leverage coming in that side or you are going to...

- Kulin Lalbhai:** I think you should expect now operating leverage in all parts of the business, and that's what's actually also come through in H1. So, you should expect that in the full year also.
- Rajiv Bharati:** Sure. Lastly, one question to Amisha. So, we have heard a lot of continuity from what Shailesh was continuing on, let's say, brand extension and expanding the network. But are there any other low-hanging fruits which you are targeting to impact your change of guard and something which you are bringing on the table, which is very new, which we have not seen so far?
- Amisha Jain:** Sure. So, I'll kind of again go back and talk in terms of fundamentally how we are thinking about things. A, like I mentioned, I think a strong portfolio of 5 brands, and we believe that there is headroom there. So, as we look at these 5 brands as well, right, we want to make sure that we are articulating and extremely sharp on how we are positioning our brand. So from a brand positioning, consumer communication and how we talk to our consumer, you will see that we will double down over there.
- The second thing we will talk about is going forward is also looking at how we are catering to this consumer from a product point of view. So, sharpening our merchandising range, sharpening the way the product portfolio, the pricing of the portfolio, aligning that to the consumers that we serve is going to be a second large thing.
- Now as you look at the consumer, you look at the product portfolio that you sort of cater to them, then you want to make sure that you are talking to them. So, and hence, we will be looking at a sharp segmentation. We will be data backed, and we will ensure that we are improving and going after our marketing capabilities also.
- So enhancing that through technology in everything we do. We're going to make sure that we are going to leverage that from a consumer targeting point of view. Now as I said this, I think it's also important to understand that when you talk about product, when you talk about brand, the critical thing is to make sure that the last vertical, which is the last pillar, which is channel has to stack up right for each brand.
- So we will be looking at these 3 things in a very sharp manner across our brand portfolio. Largely speaking, I would say that there will be 2 large enablers to the business in the future. One is obviously, I've already spoken about, which is improving the way we look at data and ensuring that we make a lot of data backed decisions, and that should also inform the way we talk to our consumers, the way we target them, the way we segment them. That's one part of it.
- The second is we will be looking at technology in pretty much everything we do. So how we go to market, how we cater to the consumer, how do we look at merchandising. Every part of our value chain, we will ensure that there is acceleration from a technology point of view as well over the years.
- Moderator:** We will take that as the last question for today. I now hand the conference over to Mr. Girdhar for closing comments.

Girdhar Chitlangia: Thank you, everybody, for joining the call today. If you have any more questions, please feel free to reach out to us, and we would be happy to answer them offline. Have a good day.

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