“Arvind Fashions Limited

Q3 & FY ‘26 Results Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Q3 and FY '26 Results Earnings Conference Call of Arvind Fashions Limited. As a reminder, all participant line 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 the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Girdhar Chitlangia. Thank you, and over to you, sir.

Girdhar Chitlangia: Thanks, Danish. Hello. Welcome, everyone, and thank you for joining us on the Arvind Fashions Limited Earnings Conference Call for the third quarter ended 31st December 2025. I am 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 third quarter performance. Post that, I will hand over the call to Amisha to take us through the financial performance and the business highlights.

After the end of the call and post 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, Girdhar. A very good afternoon to you all. Thank you for joining us for the Q3 results. I'm very happy to share that this quarter, we have seen the highest year-on-year growth in several years. We have grown at consistent double-digit growth rates over the past few quarters, which demonstrates that our growth drivers have fallen in place.

The demand environment was stable, and we achieved a 14.5% growth led by healthy LTL growth of 8.2% in the retail channel and around 50% growth in the direct online channel, leading to an overall 18% growth in EBITDA with a 40 basis points margin expansion. Our PAT adjusted for the onetime wage code-related charge has also grown by 65%, which shows strong operating leverage coming through.

Moving forward, with a strong addition in square footage, a healthy LTL growth and robust growth in our direct online and adjacencies, we hope to maintain this growth momentum. We continue to stay focused on our mantra of profitable growth, resulting in further improvement in return on capital employed. Arvind's reacquisition of a 31.25% stake in AYBPL reinforces Flying Machine's strategic importance within the AFL portfolio with the brand positioned as a key growth driver in the denim-led youth fashion market.

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: Thank you, Kulin. Good afternoon, everyone. Wishing you all and your families a very, very happy New Year, and a warm welcome to the investor call for the quarter ended December 31, 2025. Q3 of FY '26 marked another strong quarter for us with revenue growth of 14.5%, driven by consistent execution across our direct-to-consumer channels.

We delivered a robust 8.2% like-for-like growth, nearly 50% growth in online B2C and a sustained double-digit secondary growth in our wholesale channels. In the quarter gone by, NSV stood at INR1,377 crores as against INR1,203 crores in the previous year same quarter. And our EBITDA was INR195 crores versus INR165 crores.

We continue to grow our direct channels. These together now account for nearly 63% of sales, a 260 basis points higher share over last year. Retail growth is very healthy at double-digits with very good like-for-like at 8.2%.

Our expansion gathered pace and we have added over 41,000 square feet of retail space in this quarter. We are in line to open 1.5 lakh square feet in FY '26. Our strategy is to pivot our online sales towards online B2C, and that is also yielding really good results. Our online B2C grew by nearly 50%, taking its share to 17% with significant improvement in channel margin. Coming to wholesale, the wholesale channels also grew double digits with some billing of Q2, which was impacted by GST transition earlier that got moved into this quarter.

Both MBO and department store secondary sales have also witnessed a very strong double-digit growth. Now moving on to brands.

During this quarter, we acquired Flipkart stake in Flying Machine. We believe Flying Machine offers a tremendous growth opportunity. And going ahead, it will operate with a very sharply positioned role : a Gen Z-focused unisex fashion brand anchored in on-trend expression with denim at its core.

Flying Machine will launch its dedicated D2C platform in fiscal '27, creating a direct-to-channel more directly communicating to the consumers, building relevance, community and cultural momentum with our Gen Z consumers. At the brand level, further, U.S. Polo continued its momentum and grew exceptionally at over 25%, led by impactful execution across all consumer touch points. Growth in other brands was nearly to high single-digit. PVH brands growth was impacted due to geopolitical supply chain disruptions and transition to a new GST regime where GST rates have increased from 12% to 18%.

Talking about other categories, those also grew really well and almost all of these growing in excess of 20%. These were predominantly led by footwear, which is now back to a very high growth. We believe that the disruption caused by implementation of BIS norms is now behind us. Overall, adjacent categories grew at 23%. Among the other metrics that showed improvement are inventory freshness and gross margin.

Inventory freshness is at an all-time high and gross margin has improved by 50 basis points. We continued our focus on advertising spend. Among the balance sheet metrics, overall working capital remained stable. Inventory buildup was to mitigate geopolitical disruptions. This has also helped us improve freshness and on-time season launch.

Coming to the P&L. The growth in EBITDA at AFL in Q2 is 18.2%, up 40 basis points led by gross margin improvement. Since there was early onset of festive season and wedding season, we entered EOSS a week earlier than usual. Overall discount was higher, but better channel mix, cost efficiencies and select have led to improvement in margin. In this journey of profitable growth, the PAT, excluding code on wages impact in Q3 is at INR44 crores a growth of 65% over last year.

The growth in PBT is nearly 20%, again, excluding code on wages. As we enter last quarter of the year, we are reasonably confident of maintaining our growth rate. We will continue our store expansion, and we hope to achieve a net square feet addition of 1.5 lakh square feet for this year. Our consistent execution on product in-store experience will help us deliver a healthy double-digit growth in retail and direct-to-consumer channels.

We also expect that the government initiatives will aid higher consumer disposable incomes, leading to a demand improvement across categories in the medium-term. The outcome will, of course, depend on how the market environment shapes up. Thank you.

Moderator: Thank you. Our first question comes from the line of Avinash K from Motilal Oswal Financial Services Limited.

Avinash K: Congratulations on a very good set of numbers. So if I heard right, you said like U.S. Polo growth is 25% for a brand which is almost at INR2,000 crores, what drove such a huge growth in this quarter?

Amisha Jain: Thanks for your question. I think that's a great question We're quite excited to see the way some of the growth drivers around U.S. Polo are shaping up. If you were to talk about how some of the initiatives that were put in place, one large thing that we've been talking about is product and what we're seeing is that U.S. Polo product elevation is extremely visible in the market.

The consumer is taking that really well. We've been driving premiumization, and that is another trend that has worked extremely well for U.S. Polo. So all in all, from a product assortment point of view, our strategy is on point, and we've been going extremely well. The second thing is we did double down on how our distribution looks like in U.S. Polo and our retail expansion has been targeted towards that. So, shutting down of nonperforming stores but predominantly expanding retail has also led to significant growth.

The third piece is that the other categories have been doing really well, and we've doubled down on that, especially with U.S. Polo. Innerwear, footwear, kids and womenswear have all clocked upwards of 25% growth as well. So, I think from all in all, our growth drivers in U.S. Polo have been significant.

Coming back to direct-to-consumer growth driver for us, we've also seen an 50% plus growth in online as well. So overall, when you look at it, all channels firing, retail and online channel doing really well, that has led to the growth of U.S. Polo.

Avinash K: Okay. Understood. My only concern is that this isn't the case of channel filling or inventory stuffing, which led to growth in the near-term?

Amisha Jain: Overall, from a retail point of view, the retail growth is at 23% and our like-for-like in U.S. Polo is at 11%. The other important thing to note is that it is our mainline business in retail and our direct-to-consumer business that has actually grown faster.

When you look at our wholesale numbers also, our wholesale, while it is at double-digit, , actually, between Q2 and Q3, we are in line with the standard growth of wholesale as well. So, it's really the consumer offtake that is driving U.S. Polo.

Avinash K: That's a very good point. Congrats. Second thing is a little bit of bookkeeping question. If you look at like employee costs, they have gone up by 23% this quarter. So, is it a one-off? Or how should we read it?

Amisha Jain: Sure. I think there are 2 parts to it. Employee benefit expenses have gone up slightly in this quarter, more sort of putting in some money towards the employee welfare expenses, which is a one-off and some of it is the ESOP charge.

As we spoke last time also about some of the growth drivers, and one critical growth driver that we had highlighted was our investment towards data AI and consumer centricity. And so we've kind of ramped up hiring there, and that's what you're seeing as well in the consumer intelligence piece and also invested towards some of the strategic pieces. While we've done this, what you will see coming next year is that these numbers should come in line with the growth of the business as well.

Avinash K: Okay. So, most of it is like a steady structural basis, you'll see a similar kind of INR80 crores run rate going forward?

Girdhar Chitlangia: Yes, . There could be a small onetime which will drop off some of the staff welfare kind of a thing. But yes, otherwise, it will be pretty consistent like this.

Moderator: Our next question comes from the line of Kaustubh Pawaskar from ICICIdirect.

Kaustubh Pawaskar: Congrats for a good set of numbers. My question is on Flying Machine. Now since we have consolidated it and we have brought the brand under our kitty. So now we will definitely look to redefine the strategy for the brand. So how much time will it take brand to really get back to its original growth rate or maybe from -- when we can see brand really start performing and adding materially to the growth and profitability of the company?

Amisha Jain: Sure. Great. Thanks for the question. I just want to kind of step back and talk about Flying Machine holistically. If you were to kind of look at from a market point of view, we believe that there is a tremendous opportunity in front of us in Flying Machine.

As you can see, from a denim point of view, there's a large gap between the #1 player in the market and rest of the brands. We have a belief that Flying Machine with its equity that it holds and the positioning that it has had, it can be one of the largest denim players, both in men's and women's segment.

And tying to that, one big push you will see is us addressing the Gen Z consumers in the market. So, from a portfolio point of view, Flying Machine is actually well positioned to kind of take on that space. And that's why we're bullish about it.

Now given that, we will also see that our channel strategy also align that way. We will have a bigger, bolder digital strategy. You will see us launch the flyingmachine.com in the coming fiscal year. And some of those initiatives will start lining up as we start working closer towards the market in terms of how we are targeting the consumer, serving the consumer and addressing the consumer from a product portfolio point of view.

Now having said that, what you will see in this quarter, the way we've performed, we've seen a 17% like-for-like in Flying Machine in the stores as well. And our B2C on Flying Machine has grown by about 40%. Department store has grown by about 35%. So to the question that you're asking, we're already seeing green shoots.

We're already seeing that the brand is sort of on its path. And we will need another couple of seasons, maybe 2 to 3 seasons where you'll start seeing the brand sort of coming into its mainstream growth as well.

But I would also emphasize that it's already on that path. Now obviously, given the movement -- given that we've now got the stake, et cetera, what you will see us do is line it up better in terms of how we will cater to the Gen Z consumer through other marketplaces. It opens up a few more avenues for us as well. And we are quite bullish about it. We will see momentum in this brand continue over the next few seasons.

Kaustubh Pawaskar: My related question to it is since you are making it more a Gen Z focused kind of a brand, what -- how will be the pricing differentiation will be with some of the brands which are already there in the market. So some of the premium brands, which are already there in the market and their focus might be something else, but you are focusing more from the Gen Z kind of a brand concept. So will there be any material price difference which will be available in the market?

Amisha Jain: See, I think when you look at Flying Machine, it is actually very well positioned to be the strong youth denim brand. And when you look at the product market fit, it's got actually a phenomenal product market fit as well. Our products are priced exceptionally well for the value that we're offering. And so from that perspective, I feel that from a consumer point of view, it's actually very well poised to serve that segment of the consumer.

Moderator: Our next question comes from the line of Priyank from Vallum Capital.

Priyank: Team, my question is on the -- when I have to look at non-controlling interest, which has dropped quarter-on-quarter and also on a long-term run rate, what explains this? Is it PVH some -- I mean, the growth issues at the PVH and what would that be, if you can elaborate on that?

Girdhar Chitlangia: Priyank, Girdhar here. You see in the last quarter, there was a code of wages impact on the PVH business, which subdued its profitability by some bit. There was an FM model change also where we moved to a different model with a couple of our partners. So because of which we had to reverse some of the sales and take a negative position on the P&L.

So those are the 2 which explain the large part of the drop. However, having said that, when the GST was rolled out, there were some headwinds on the PVH business early in October and sometime till November. Post which business has stabilized. There was a price increase and consumers found it a little difficult to absorb and buy. But since middle of November till December and now we are seeing quite healthy growth and those numbers are coming back.

So largely, it is attributed to some slowdown in PVH in the early part of the quarter, a labor code impact and FM -- yes, largely the PVH impact early in the quarter was because of the GST, where prices had to be increased.

Priyank: I couldn't get the first point, moved to the different business partners. Could you explain me that? What was the change in the business model?

Girdhar Chitlangia: Yes. For the Flying Machine, we had to move to an SOR model with a couple of our partners. So whatever was the inventory, we had to take it back and we started recording sales on a secondary basis. So, the residual inventory at that transition time had to be recorded as a reversal of sales in our books, which increased the loss and hence the minority interest went down.

Amisha Jain: I think the PVH, the only point is that given the GST transition from 12% to 18%, we did pass on and increased prices there. So there was an interim blip that we saw in terms of that sticker shock. But what we've seen now is that the sales are stabilizing over there.

Priyank: Got it. So ma'am, then I have to just reconcile the like-to-like numbers, U.S. Polo would have grown at 11%, FM at 17%. PVH might have seen a slight decline. So if the numbers are so high, so what -- so the balancing number comes only for Arrow, which also would have been negative. How does this reconcile on a total 8% like-to-like growth that we have reported?

Amisha Jain: Yes. So see, all our brands have grown -- I mean, while we've grown overall at 15%. Our brands stand -- U.S. Polo have grown at about double-digits. And like-for-like for FM has grown at about 17%.

PVH has also grown. The thing with Arrow has been that, one is we did see a little bit of a supply disruption because of the movement of goods from Bangladesh. And some of the key inventories were a little delayed into the market, which got streamlined a little bit post November, and now we're kind of on track.

So there was a minor sort of that movement led to us participating into the wedding piece a little later, which impacted Arrow a little bit. While Arrow has grown, it has grown in early single digits. Overall, what we see now is that all our brands are on a pretty solid positive growth.

Priyank: Sorry, I'm just reconciling the numbers again. You said U.S. Polo like-to-like growth would have been early double-digits and FM also 11%. Is that right?

Amisha Jain: Sorry, say that again, please?

Priyank: I'm saying just getting a clarification on the numbers that you spoke out. U.S. Polo would have been 11% and even FM, Flying Machine would have been 11% on the like-to-like growth.

Girdhar Chitlangia: Yes. But share of FM is very low. While the number is double-digit, the share is very low. And hence, on an overall basis, the weighted average will still be 8%.

Priyank: Got it. And one last thing on the overall strategic part, when I have to look at 9 months performance, despite a solid performance on the top line, what we are yet witnessing is not all the gross -- I mean, yet on the EBITDA level, the uplifting has been done only via gross margin gains?

I mean the gross margin mix, of course, with the retail going up is also going up, but it's not completely populating down into the EBITDA margin, which means that we are yet on an investment journey for our brands. When do we see the gains coming from the operating leverage and not only via gross margins, which will give us a confidence that the brands which were expected to turn around are actually performing well?

Amisha Jain: If I were to step back, as you may have noted that we've expanded our margins by 140 bps over the last 2 years with a focus on cost and other efficiencies. And so, with confidence on growth around double-digit, we believe that operating leverage is possible in the business, and we expect EBITDA to grow more than 15%. And I think that's something that you've seen consistently as well. We have seen operating leverage year-over-year on fixed costs, excluding the onetime costs as well.

So with all of that in place, we have also said that we want to make sure that we will continue to invest towards advertising as well, and we do to spur growth also. So we are in line with that kind of an investment. And given our growth trajectory, we are confident that we will be able to see more than 15% in terms of EBITDA growth.

Moderator: Our next question comes from the line of Tejash Shah from Avendus Spark Constitution Equities.

Tejash Shah: Congrats on good set of numbers. Just wanted to start with -- could you help us understand the strategic rationale behind increasing the online B2C contribution and which of the 3 objectives it is primarily aimed at? Is it growth, profitability or working capital efficiency?

Amisha Jain: Yes, I think at a broad level, we've called out that direct-to-consumer is a key growth driver for us, and we are getting more and more closer to the consumer. It does a few things for us as a consumer organization, as a brand organization.

As we stay closer to the market, our learning and understanding of the consumers increases and how we kind of pull that back into a feedback loop, not just from the way of how we are communicating to the consumer, but also from a perspective of how we are serving the consumer, the learnings around product and our entire value chain.

So there's one large element of saying that as a brand, we want to be closer to the consumer and want to make sure that we are center of culture, adapting to whatever the consumer is shifting towards, and we are able to do that faster.

Hence, we've always maintained that we would like to take this number of us from a direct-to-consumer point of view, we do want to take it to about 75%. We are at 63%, if you were to look at it from a share of business point of view, right? Second point is, I think it allows us to actually also maintain pricing and keep that in check.

It allows us to continue to control the discounting, allows us to kind of, again, bring some of those gross margin and EBITDA numbers in check. That's the second piece of it in terms of how it will enable us to improve overall structural economics of the business as well.

Tejash Shah: Got it. Okay. Second, just wanted to know what are the -- you spoke about the distribution interventions that we would have made in U.S. Polo to deliver this kind of robust growth. So first, if you can elaborate a bit on distribution intervention that we would have made recently? And second, what is the white space or total universe, which is available the way you see it today, which gives you visibility of 2 to 3 years growth in this particular brand.

Amisha Jain: The first part of your question was on distribution for U.S. Polo, right?

Tejash Shah: Yes.

Amisha Jain: So see, I think I'll kind of go back to again saying that as a growth driver, there are a couple of things that we had called out. One is retail expansion. Second is kind of doubling down our focus on making sure that we drive retail efficiencies and hence, like-for-like growth. The third being digitization in general.

And obviously, driving adjacent categories. Now when you apply this to U.S. Polo, it's firing on all these fronts. In terms of retail stores, we've been at a solid expansion trajectory. And by the end of this year, overall at a portfolio level, we will add net -- 1.5 lakh net square feet .

U.S. Polo obviously is driving a good chunk of this. At the end of the year, U.S. Polo will be at about 400-plus stores, and we would have added close to 60 stores in U.S. Polo. Having said that, U.S. Polo is clocking very well in terms of the retail like-for-like also. Plus, on top of that, when we look at the online play in U.S. Polo, what we're doing is ensuring that the right product is reaching the consumer through this online channel as well.

We are also seeing that the growth in online of U.S. Polo as a brand is pretty strong. All in all, if I were to look at it, our direct-to-consumer channel strategy is actually playing out really well for the brand.

Tejash Shah: Perfect. And last one, if I may. How is the -- what's your read on the health of inventory and working capital as it's today? Because at least on paper, it looks like it has grown faster than 9 month revenue growth?

Girdhar Chitlangia: Yes, I will take that. You see we are perhaps at the best health of inventory. Our inventory, which is more than 2 years is lowest ever, in the last 3-4 years. Yes, I agree that the inventory levels seem a little higher, but please understand that we are nearing an election in Bangladesh in February.

And to derisk some of those issues and almost 15% of our product comes from Bangladesh. So ,to derisk that, we actually took a conscious call to inward some of the inventory in late December, which is showing up. We believe that this is transitionary and as situation stabilizes, we will come back to normal inventory turns of between 3.8 to 4 somewhere there actually.

Moderator: Our next question comes from the line of Prakash Kapadia from Kapadia Financial Services.

Prakash Kapadia: A couple of questions from my end. You've been guiding and achieving the mid-teens growth over the last few quarters, and you've been talking about some of the tailwinds over the last few months. So given some of these tailwinds, shouldn't growth aspirations now be slightly higher than what we've been targeting and achieving of that broadly 11% to 14% sales growth range?

And also, it will be helpful if you could comment on adjacent categories, how crucial is that to our growth strategy? What is the contribution of adjacent categories to our sales now? And lastly, what would top 10 cities be contributing to our overall sales? Those are my questions.

Amisha Jain: Thanks for the question. When you look at our growth over the last 3 quarters, and as you pointed out, we've shown significant momentum, and that's also on the back of, again, the strategic growth drivers that we had set up. The team has been really focused on ensuring that we drive solid execution behind the strategy that we've kind of put together.

Now we continue to be confident that we will be able to post double-digit growth for this year. As you mentioned, in terms of the tailwinds, which are external, the government stimulus and the GST rationalization, et cetera, we do believe that in the medium-term, that should help build the consumer demand, and we remain hopeful that will contribute as well.

Having said that, I would still say that we are confident that we will start driving towards and we will maintain our trajectory of growth between 12% to 15%. We have been delivering at a little higher end of that. And given the growth drivers that are in place, we believe that we'll continue to clock in that direction. In terms of the second question that you asked around the adjacent categories. We are overall from a portfolio point of view; our 5 brands are actually pretty solid.

As I had mentioned last time as well, that for us, we do believe there is significant room for us to grow within this portfolio. And our other categories obviously are a key driver of that. Having said that, the mainstream business actually, which is more from an apparel point of view, keeps clocking in the same range as well.

Adjacent categories are critical because as you look at our brands, consumers are expecting this and our brands are more from a lifestyle positioning point of view, these are end-to-end brands. And hence, for us, the adjacent categories are critical.

In terms of -- when I look at brand by brand, from a portfolio point of view, about 25%-odd of our portfolio sits within the adjacent categories, and this drives significant growth. We do believe that there is headroom for growth for the year. Footwear has come back to 20% plus and so is innerwear in that range. Women's apparel has clocked about 50% plus growth. With all this still women's apparel is very, very early days, but overall, our belief is that these are some of the growth drivers of the future.

While we continue to drive it, I will still emphasize that our mainstream apparel point of view, it's quite heartening to see the way our brands have been growing in the men's apparel space as well.

Prakash Kapadia: Okay. And if you could have that top 10 cities contributions from here on, how does growth pan across? Is it pan-India? Is it more aspirational? Is it beyond the top 20 cities? Some color or context will help.

Amisha Jain: So overall, if you would look at our brand portfolio, we are present across about 150 cities. And we will close the year at about -- in the entire portfolio, with about 1,000-plus stores within our portfolio. We do believe there is a potential for us to expand within the top tier cities further, and we will only keep going in that direction.

We will continue to improve the boxes, the size of the boxes and our retail expansion will continue from a net square feet addition as well So, from that perspective, to answer your question, we do have a focus on the top-tier cities, and we will continue. On the specifics, we will get back to you on those numbers.

Moderator: Our next question comes from the line of Palash Kawale from Nuvama Asset Management.

Palash Kawale: So my first question is on channel mix. So when do you see this growth in online B2C stabilizing or to reverse in this channel?

Girdhar Chitlangia: Sorry, just can you repeat the question?

Palash Kawale: So my question was on channel growth. When do you see this growth in online B2C stabilizing? You have been growing pretty well in the channel. So when do you see the growth reversing to NIM?

Girdhar Chitlangia: Over the last 4 years, we have been actually trying to defocus on B2B while increasing our focus on B2C. The importance of both the channels will always remain. And as we go ahead, B2B is largely used during the large tower events plus some other events that are there. But B2C will be a continuous focus. And as of today, we see there's a big attraction and there seems to be quite a lot of natural demand, which is coming.

So, we are currently clocking more than 50%. And yes, at some point, this will become stabilized, and we believe that it could be -- overall online growth will continue to grow at 20% to 30% year-on-year at least in the next near future.

Palash Kawale: Yes. That's really helpful. And is this one of the biggest driver for gross margin expansion for you?

Girdhar Chitlangia: There is surely an advantage of increasing share of the B2C, whereas Amisha said earlier, we can control the pricing and discounting. However, I think a large part of our improvement is coming from both retail as well as B2C.

Palash Kawale: So this expansion should continue going forward as well, right?

Girdhar Chitlangia: Yes.

Palash Kawale: Okay. And next question was on -- can you -- can we see the success of adjacencies in other brands like Arrow and FM? Is that possible?

Amisha Jain: See, like I said, every brand has its journey. And currently, we are building adjacent categories where we believe there is relevance, and we will continue to drive that. And the scope of that and the scale of that is something that we will drive from where the brand stands. As we are looking at Arrow and FM and we've been on this journey and Arrow is a little ahead of FM in terms of the direction and how the brand is now positioned and turned around.

While we are on this journey, whenever it is relevant we will start driving additional sort of build-out of some of these other categories. But it's more to do with the way the brand is built out. And I wouldn't kind of have a -- say that all brands will kind of go at the same pace on that.

Moderator: Our next question comes from the line of Niraj from White Pine Investment Management.

Niraj: Yes. I wanted to again get the like-for-like for the FM. Was it 11% or 17%?

Amisha Jain: The like-for-like for FM is 17%. But like I had said earlier as well, I think we need to keep in mind that it's a very small part from a retail portfolio point of view.

Niraj: Understood. And can you give the like-for-like for Arrow and the PVH brands?

Girdhar Chitlangia: So usually, the brand-wise data, we don't share. I'm happy to connect with you offline so that we can discuss some of these.

Niraj: The reason I was asking, I wanted to know on the -- at least the formal offtake in the market. How is it considering that there is some marriage season upcoming.

Amisha Jain: Yes. When you look at the quarter, I mean, wedding season was earlier this year. And like I had mentioned, the formal -- I mean, for us, Arrow has been doing well. It's coming to the place slowly as we kind of drive the transformation of this brand, we are getting to a place and in a couple of seasons, we will see a shift there as well. We are seeing an offtake.

But having said that, Arrow participates more from a formal wear point of view. And for us, the thing is that we partake in a very minimal level from a wedding perspective. So, our observation on a formal market would be only limited to the scope of what we cater to.

Niraj: Okay. And last question on the margins. On -- I know you don't give brand, but can you give a color when these Arrow and FM can -- sorry, the Arrow and FM, yes, can breakeven or move to a reasonable number in EBITDA margins?

Girdhar Chitlangia: Arrow, as we speak, post-Ind AS is profitable. And obviously, there is a journey between the brands. Flying Machine, as we have said earlier also, it is still work in progress. And it is about 2 to 3 quarters behind Arrow. And we are hoping that end of next year, probably we'll see some EBITDA profitability in that brand.

Niraj: Got it. So, once it stabilizes whenever a year down the line or so, where do you see the margins stabilizing at range?

Girdhar Chitlangia: Arrow can reach mid-single digit in my view, within a year and Flying Machine, as I said earlier, can near a breakeven number.

Moderator: Our next question comes from the line of Ashutosh from ICICI Securities.

Ashutosh: So ma'am, my question is on the overall demand scenario. So if we see that many of the value retailers have specifically highlighted that the demand is very soft and they have given reasons like it's like overall subdued demand along with the competition that is there. But for Arvind, like how is the premium segment performing?

And also just want to add in this, one of the largest value retailer in quarter 2 said that the initial GST benefits actually went to the large ticket items. And they said that it will gradually flow to the discretionary side like the apparel. So are you seeing any on-ground trends regarding that and overall premium segment, how it is doing the customer trends given it's almost like 1 month has already passed in Q4?

Amisha Jain: Yes. For us we have been following a premiumization strategy, and that we have seen has been doing well. The demand from a consumer point of view has been pretty solid for our brands. And that stability we see, and we are expecting that to continue in Q4 as well. While it is only a few weeks into Q4, we remain hopeful that we should be maintaining our trajectory of growth in the 12% to 15% zone as we've communicated.

I can't comment on the value retail part of it, but I will say that from a GST perspective, we do believe that some of these initiatives should come back to boosting demand in a positive way in the medium-term, while we may not have seen an immediate effect.

Ashutosh: Okay. Understood, ma'am. And my next question is on the Q3 growth. So you said that there was some spillover from quarter 2. So what would be the normalized growth for Q3, like if you can exclude the spillover?

Girdhar Chitlangia: The impact could be less than a percentage, I would say, not much.

Amisha Jain: I think the way to read it would be if you look at MBO between Q2 and Q3, it would look at a normalized growth of MBO both put together.

Girdhar Chitlangia: Yes.

Moderator: Our next question comes from the line of Andrey Purushottam from Cogito Advisors.

Andrey Purushottam: Congratulations for a good set of numbers. I wanted to ask about margin levers on 4 sub-dimensions, okay? So I'll just take each of the sub dimensions one by one and ask you, if I may. Firstly, you mentioned operating leverage, right? Now I wanted to understand, apart from, let's say, the spreading out of overhead to a large number of stores, et cetera, what are your sources of operating leverage? And how do you see that panning out in the near future?

Girdhar Chitlangia: Okay. What is your next question? Keep going.

Andrey Purushottam: Yes. Second question is maybe -- okay, the other 3 is premiumization. How important is premiumization to you? And how much is that contributing to margins? The third question is cost control.

How important is cost control and where are the areas of cost control? And the fourth question is that if you're increasing percentage of online sales from the current 17% to whatever they might be in the future, how much will that contribute to improving margins? And have I captured all the margin levers? Or are there any other significant margin levers that I have missed out on?

Amisha Jain: I think at a broad level, I'll say that premiumization is a very important strategic lever. And when we look at our product portfolio across our brands, we have been driving a premiumization strategy. And what we have seen is that the consumer is responding well to that. Our brands are -- while they are premiumizing, the product market fit is quite phenomenal and our brands are all positioned in an aspirational part of their own individual segment, right? From that perspective, premiumization is a very critical part of our strategy.

Overall, as we've also communicated that gross margin expansion is something that is -- and premiumization is kind of driving that as well. Our focus has been on both on product strategy, getting the right assortments out and ensuring that we are driving premium within that segment as well, right, while offering great value to the consumer.

Further, this has led to GP improvement as we've worked on the COGS side of things. But at the same time, our focus has been to kind of continue to reduce discounting at an overall level as well. I think all in all, that part of the strategy kind of hits very hard.

We've also maintained that as a company, we are very, very sharply focused on driving operating leverage. And hence, you will always see EBITDA growing faster than revenue, and that obviously brings into the question that you asked. Obviously, cost controls are part of it. We have seen over the last 2 years, you've seen about 140 basis points sort of an improvement in margin expansion with our focus on cost and efficiencies, and that includes fixed costs, et cetera. So we continue to remain focused over that.

We will keep driving it. As we drive our channel expansion, we do believe that Opex will remain in line, and that should lead to EBITDA expansion as well. So operating leverage kind of comes and flows from there as well.

Andrey Purushottam: I'm sorry, I didn't get any specific answers to my questions. First of all, I asked about what is the source of your operating leverage. And in terms of premiumization, could you explain what is -- what are you doing actually in terms of your assortment, et cetera, that is leading to premiumization? What are your initiatives and cost control? And does the increasing percentage of online sales increase your margins in any meaningful way? So I would request you to give some specific color on these questions.

Amisha Jain: If I were to kind of go back to premiumization, we can talk about the merchandising strategy. For us, premiumization comes from 2 parts, How are you looking at the brand and elevating the product portfolio in general to ensure that the product mix is what is right from a consumer, from a market and a channel point of view. For us, premiumization comes in 2 lenses.

One is a channel segmentation and ensuring that the product mix that we are aligning for that channel, for that particular store is matched to what the consumer segment is. And our merchandising strategy and our merchandising grid is getting more and more sharper and aligned to a sharper segment of a store of one. So that's one part of it.

The second, from a premiumization point of view is, you will see significantly improved product and innovation being brought to the market. And that also at a very solid -- I kind of mentioned this earlier also, very, very solid product market fit over there. What we are offering from a price value equation point of view is also extremely good.

While maintaining the aspirational portions of the brand, premiumization is being driven both from a product mix point of view, from the individual product and innovation offering point of view and how we are giving value to the consumer. That's all in all from a premiumization point of view. Does that help you?

Kulin Lalbhai: If I could just come in here...

Andrey Purushottam: I'm still not getting an answer of your -- the source of your operating leverage because I understand operating leverage a little better than the manufacturing situation?

Girdhar Chitlangia: No, see I can answer...

Amisha Jain: I think you asked 2 questions. We'll kind of park the premiumization part because you are talking about both in the same thread. So premiumization, I hope you understood that part of the merchandising strategy. And maybe we can park that question.

Andrey Purushottam: No. What I've understood what you said on premiumization is that basically you are improving the product quality and you're improving innovation. That's what I got, okay? I don't quite understand what's your linkage to merchandising to premiumization was, at least I didn't understand the connection?

Amisha Jain: So if you want, we can have a separate conversation because I think merchandising is the key part of -- from a brand merchandising grid point of view and product mix and product innovation are key drivers. If you're trying to relate this back to manufacturing, maybe there could be a separate conversation on it.

Kulin Lalbhai: If I could just come in here on a couple of examples of operating leverage in the business. I think first, on gross profit, one of the things we are seeing is constant sourcing advantage with scale. So, I think one of the ingredients into GP is when you have larger scale, you are able to get sourcing efficiency.

And of course, as Amisha was saying, there's also -- we are working on better full price sell-through and bringing our discounting down. So that's not necessarily operating leverage, but that's one of the very large things that is going into GP enhancement today.

On the sellex side, the best way to think about operating leverage is through the lens of productivity. When your LTL is very high, your store level fixed costs remain the same, but your revenue goes up faster. LTL, when it is in the high-single digits, you are getting operating leverage on your sellex, which is again, a good operating leverage point.

And then below your channel margin is your overall company fixed costs. And we've reached a scale now where the fixed cost of the company will not in the years to come, grow as much as the scale of our CBA growth and our revenue growth. So that is a third source of operating leverage. So, at 3 levels, you will be seeing operating leverage coming into the company.

Andrey Purushottam: That helps. And in terms of cost control and in terms of percentage of online contribution, how does this -- what are the cost control initiatives that are still relevant to you apart from what you've already mentioned in this list? And in terms of does the percentage -- increasing percentage of online offering improve your gross margin?

Kulin Lalbhai: Online -- and then Amisha can talk about cost. See, in online, we look at in all our channels, a metric called CBA, which is your contribution margin. And our online channel contribution is very similar to our offline direct contribution margin. So in terms of any shift between channels is not going to have a very major impact on our overall EBITDA because they are similar from a channel profitability perspective. I hope that clears your question.

Moderator: Our next question comes from the line of Pooja from in InCred Asset Management.

Pooja: Congrats on a good set of numbers. I just wanted to get some understanding on the ASP. So how is it balancing? Is it more towards the higher-end brands or the lower-end brands? If you could provide me some clarity on that?

Girdhar Chitlangia: Pooja, different brands have different positioning and Amisha can add. And Tommy, CK, of course, are in the premium segment. CK, we call it as a bridge to luxury. And Tommy is, of course, premium and different brands have different ASPs. If you could be more specific or we could, of course, catch up offline also, but we need more specific question.

Pooja: So I need to ask that how is the overall ASP shaping up? Is it more towards the premium brands? Are they contributing more? Or is it the lower end brands that are contributing more?

Amisha Jain: I think if you were to look at the portfolio, I mean, our portfolio outcome is an overall mix of the brands. And we have our brands that are staggered up from Flying Machine that is positioned as a denim-oriented youth brand to -- as we scale up to U.S. Polo's positioning, laddering up to Tommy and then to CK. So an individual brand from that perspective will sort of -- overall from a portfolio mix point of view, the ASP will obviously inch towards the weighted average of these brands as well.

Pooja: Correct. So that's what I wanted to understand that. How is it -- how is the segment-wise from the higher-end brands or the lower-end brands?

Amisha Jain: You are speaking segment-wise, which kind of segment are you speaking? Pooja, can we put this question offline a little better. Maybe we can connect with you, Girdhar can connect with you, and we can understand this better and maybe respond to you.

Moderator: Our next question comes from the line of Shreyans J from Swan Investments.

Shreyans J: Yes. Amisha, this question is for you. So given your background, what in your sense is the market for denim in India? And when you sort of look at that market, barring Levi's, there has been no other brand which has been constantly amongst the top 5. So I'm just trying to understand what we hear and read is the top 2, 3, 4, 5, that number keeps on changing?

And when you look at the growth rates of Spykar, Killer, Lee, Wrangler, all of those brands and even if I include FM in that breadth, FM is at INR400 crores for the last 4, 5 years. So what gives you the confidence that the initiatives that you take will actually drive growth from here on? Because in the past also, we've done a lot of things in the FM piece, but something sort of doesn't work out. So I just wanted to understand, is it a category problem? Is it a brand problem? What is actually happening underneath?

Given the denim category in general, we do believe that we have actually a very solid opportunity ahead of us. At the same time, our brands are very well positioned to cater to that category. Even if I were to just talk about our entire casual wear portfolio, which is laddering up from Flying Machine to U.S. Polo to Tommy and to CK, denim as a category, we are looking to serve that.

And we believe that we have an opportunity to lead in each of these consumer demand spaces at that consumer cohort, we believe that we can kind of drive to a #1 player in all of these spaces. Now coming back to the specific question the way we will go about building our brands is we are ensuring that we are catering to the consumers specific consumer need.

And that's the first step of it. And then what we will line up is 3 big things, which will yield the results that we're seeking. I think it's important that we have the right product portfolio, and we feel extremely confident that with Flying Machine, we've kind of homed in on and as I've seen now the recent season, we've honed in on what the right product portfolio is from a consumer point of view. We're building out the assortment and ensuring that our -- overall, our merchandising strategy is aligned from that consumer profile point of view. That's step one.

Step 2 is we're also sharpening the way we serve and reach our consumer. And that is another critical piece of it. How do you speak to that consumer? How do we serve that consumer is an important part. We are doubling down on our marketing capabilities and going after this part of it.

I have spoken about this earlier as well. As part of our strategy, we are ensuring that we are going to segment the market. We're going to make sure that we are going to start communicating in a sharper manner and in a more current digitally oriented world and this consumer, we're going to kind of drive that as well. The way we are going to build the brand is going to be a second significant piece of how we will go about it. The third is ensuring that we are serving the consumer through the channel of choice.

This consumer fits within a certain type of channels, and we want to make sure that we are catering to that consumer that way as well. So how do we go about the social media strategy? How do we go about our digital strategy? How do we make sure that our digital commerce, our retail is lined up to serving the consumer as well. So that's what we're after.

And you'll see us come out from a brand point of view in a sharper way. Having said all of that, brands are built over a period. And us -- what we are now seeking to do is build this consistency -- and consistently season over season, ensuring that we have a sharp brand positioning, and we continue to cater to that consumer, with the right cultural books, with the right medium of communicating with the consumer. So, to the question you're asking, I'm extremely confident and bullish. I do believe that we have a great opportunity to take on this market.

We do believe that building out a brand of India and building out this brand for the youth is also going to be a solid positioning and the future of Flying Machines. Having said that, I do believe our brand like U.S. Polo, Tommy and CK are all extremely well positioned to service the consumer cohorts they service -- service that consumer from a particular price point perspective as well.

Shreyans J: Okay. And my second and last question is, when you look at the overall business, last 2 years, if I just dial back, 4.5% growth and FY '25, 8.5% growth. And obviously, U.S. Polo.

Girdhar Chitlangia: Thank you, everyone, for joining us on 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. Requesting Danish to close the call.

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