"Arvind Fashions Limited

Q1 FY27 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Arvind Fashions Limited Q1 FY27 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 at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Girdhar Chitlangia, Chief Financial Officer of the company. Thank you, and over to you, sir.

Girdhar Chitlangia: Hi. Thanks, Manav. Good afternoon. ~~Hello.~~ Welcome, everyone, and thank you for joining us on the Arvind Fashions Limited Earnings Conference Call for the first quarter ended 30th June 2026. 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 had been mailed across to you yesterday. ~~And~~ These are also available on our website, www.arvindfashions.com. I hope you had the opportunity to browse through the highlights of the performance.

We will commence the call with Kulin providing his key strategic thoughts on our first quarter's performance. Post that, Amisha will take cover the financial performance and 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 the risks and uncertainties that 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. Very good afternoon to all of you. Thank you for joining us for the Q1 results. Building on our strong FY26 performance, we have started FY27 with another excellent quarter. Our sustained focus on strengthening the business across brands, channels and execution continues to deliver strong outcomes.

I'm pleased to share that we recorded a 15.5% revenue growth and a 19.6% EBITDA growth during the quarter. The demand environment remains stable despite the West Asia conflict. The investments we have made over the past few years in strengthening our brand platforms have improved the resilience of our business even in uncertain environments like now.

Our continued investments in brands, people, and retail execution enabled us to deliver a 11.6% like-to-like retail growth and 38% growth in our direct-to-consumer online business. Looking ahead, we remain watchful of geopolitical developments and inflationary pressures.

We will continue to manage costs and pricing proactively while staying committed to our long-term growth agenda. Our priorities remain unchanged: investing in technology and AI to enhance the customer experience, accelerating brand investments, expanding our retail footprint and continuing to scale our direct-to-consumer business.

With that, I will now hand it over to Amisha Jain, who will take you through the financial performance in greater detail.

Amisha Jain: Thanks, Kulin. Good afternoon, everyone and a warm welcome to Arvind Fashions investor call for Q1 FY27. The year has started well with a strong performance. Revenue growth is at 15.5%, and our EBITDA margin has expanded by 44 basis points. All our brands have performed to our expectations.

Continuing the trajectory we set in FY26, all our drivers of performance are firing and have helped us deliver a very strong Q1. Despite inflationary pressures resulting from West Asia conflict, a hike in wages across multiple states and adverse forex, we continue to do well.

Let me call out 3 key items before I get into the details. First, our D2C engine continues to grow. Direct channels now account for 62% of our sales, up 380 basis points year-on-year. Retail grew by 18% and online B2C grew by 38% in Q1. This is a strategic shift. We are building our business around channels where we own the customer relationship, the brand experience and the margin structure.

Second, profitability improvement is structural. Full price sell-through is up and discounting is down, resulting in a gross margin improvement of approximately 90 basis points to 56.7%. Alongside this, we have consciously increased our investment in marketing by approximately 50 basis points year-on-year. Because we believe demand generation and brand building fuel sustainable long-term growth. So even as we invest more behind our brands, our focus on cost discipline has ensured that EBITDA margins have expanded, which speaks to the operating leverage in the business.

Third, inventory and working capital. I would like to highlight that our bet on providing additional inventory in U.S. Polo is paying off, and this brand is consistently delivering a very strong performance.

In addition to this, there was a change in PVH global sourcing in order to mitigate geopolitical risks. Having said that, our inventory freshness is at an all-time high. Net working capital days are stable, and inventory levels are in line with the changing channel mix towards direct.

Now coming to the quarter's performance in detail. Q1 revenue grew 15.5% with net sales value at INR1,279 crores versus INR1,107 crores in the same quarter last year. EBITDA, excluding other income, was INR160 crores versus INR133 crores last year. A 19.6% growth over the last year in absolute terms, with a 44-basis point margin improvement.

PAT came in at about INR10 crores versus INR13 crores in Q1 last year. The decline is attributable to lower other income in this quarter as compared to Q1 last year. The underlying operating performance has been strong.

Coming to channel performance, we delivered a robust like-for-like of 11.6% in retail with an overall retail growing at 18%. Online B2C grew over 38%, taking its share of revenue to 18% from 15% a year ago. This is fully in line with our intent to pivot away from B2B online and towards direct-to-consumer channels. Wholesale and department stores delivered strong double-digit secondary sales growth as well, and we added 23 EBOs during the quarter.

On brand performance, U.S. Polo Association led the pack, delivering exceptional growth this quarter, and this is on a high base in Q1 in FY26. The brand continues to demonstrate strong momentum across channels and categories.

I would like to call out that our PVH brands, both Tommy Hilfiger and Calvin Klein, are back on growth after absorbing the impact of recent GST changes on premium apparel. Both brands have delivered to our expectations, and we remain confident in the underlying consumer demand.

Flying Machine has also clocked double-digit growth since our acquisition of the residual stake. The brand is now live across multiple e-com platforms, and we are on track to launch the dotcom and app for the Flying Machine brand in H2 of this fiscal year. We continue to build our brand proposition around Gen Z consumers, ensuring that we are providing for both men and women, more tailored to an on-trend expression with denim at its core.

Arrow continues to do well as part of our wholesale business, and our focus this year is to strengthen the direct-to-channel channels for the brands.

Strategic execution update - I also want to highlight that we have already initiated concrete actions towards our strategic priorities. The consumer work we undertook is complete. We now have a clear road map of the market opportunity and the consumer demand landscape, and this is shaping our portfolio and our where-to-play choices going forward.

Our investments in analytics technology and AI are starting to bear very early results. We have mapped out the charter for the balance of the year. These investments will help us deliver deeper consumer analytics and bring meaningful efficiencies into back-end processes.

The organization restructuring is now complete. We have reorganized into a business unit structure for the sharper accountability and speed, while centralizing consumer brand marketing, digital, data and AI initiatives to build leverage capabilities across the portfolio.

Turning to the macro environment, the continuing West Asia conflict remains a watch item for us. It has a potential to impact supply lines, raw material, fuel prices, and forex rates. We're taking active steps to mitigate and protect our performance, including very tight control on costs and a possible revision of product prices, if necessary.

Looking ahead with the unifying goal of one team, one mission, driving cohesiveness and collaboration across Arvind Fashions, we are well placed to embark on the next phase of growth. We are confident of sustaining mid-double-digit revenue growth in the balance of the year, with 30 to 40 basis points of EBITDA margin expansion.

Thank you so much. We're now happy to take your questions.

Moderator: Thank you, ma'am. We will now begin the question-and-answer session. We have our first question from the line of Kaustubh Pawaskar from ICICI Direct.

Kaustubh Pawaskar: Congrats for a great set of numbers. I have a couple of questions. My first question is on the D2C part of the business.

Girdhar Chitlangia: Kaustubh, your voice is not clear. If you can be closer to the mic.

Kaustubh Pawaskar: Just a second. Is it okay now?

Girdhar Chitlangia: Yes, better.

Kaustubh Pawaskar: Yes. Congrats for a great set of numbers. I have a couple of questions. First question is on D2C part of the business. This quarter, again, we have seen strong growth in the business and from mix perspective also, this business contribution is improving quarter-on-quarter basis. So I want to understand what is really driving this growth on the D2C side?

And, if you can help us understand what is the pricing strategy for your D2C part of the business. Since you are alluding to the fact that you are selling more of full-price products in the market, on D2C side, how are you pricing your products or whether there is a different portfolio, some more light on your D2C part of the business?

Amisha Jain: Kaustubh, thanks for your question. If I understand your question correctly, you are referring to the entire direct-to-consumer business, which is both retail and online. Is that right?

Kaustubh Pawaskar: No, specifically online. Online part of the business.

Amisha Jain: Okay. Perfect. So, thanks for the question, Kaustubh. As we've always talked about, I think our fundamental strategy is to go direct-to-consumer, both from offline and online point of view. With a few key things that we believe is that driving closer to consumer will allow us to do a couple of things.

One is, from a brand portfolio point of view, it allows us to understand the consumer demand a lot better. We're able to react to the trends. We're able to drive pricing much closely and ensure that overall, the offering and at the same time, the brand experience is in line.

So, when we start talking about online, the continuous growth that we clocked is at about 38%. The things that are driving it is (i) better understanding of the overall consumer demand, (ii) understanding the trends and (iii) lining up the product line accordingly.

We're also ensuring that the overall product mix is catering to the relevant channels. Consumers have a certain profile by channel, and we are ensuring that we're offering the right product on the right channels which agin kind of drives growth.

And the last which is ensuring that we're communicating to consumers is through the dot.com that are relevant from a marketing point of view, and that allows us, again, from a consumer analytics point of view, to do a much sharper job as well. So, with all of this, that we're clocking is relatively I would say, more structural and the way to go from a future point of view as well.

Kaustubh Pawaskar: But how are you competing with other brands who are available on the online platform? What would be your pricing strategy to compete with them, if you can explain that?

Amisha Jain: Sure. So, I think as we continue to look at the portfolio, there has always been pressure and there has been always other brands on the online platform, and there are a lot of labels that sell over there.

Couple of things that point towards strong growth for our brand are(i) one is that our offering from a brand point of view is directly speaking to the consumers that are there. So, like I mentioned earlier as well, we're able to bring the right product to the platform. We also make sure that based on the location of our stores or online our product range is more relevant.

And hence, there is a slight nuance to the product range that we might carry, the kind of width we carry and the depth we carry, both across online and offline. We also ensure the pricing is right pricing, which is ensuring right product market fit brand by brand. So, it's noted hoc or it's not a flat priced thought process.

And if you look at our history as well, our overall discounting is coming down both from an offline and online point of view, and that will continue. So, it's not a pricing-led growth or a discount-led growth either.

Kaustubh Pawaskar: Right. If you can help me understand, what would be your full price product sales as a percentage of overall sales for this quarter? And what was it? Because since you've been emphasizing on that factor that your full price sales have been higher for the last couple of quarters.

If you can help us understand of the overall revenue mix, what could be the full price sales mix for us in this quarter? What was it last quarter? So that would be helpful for us.

Amisha Jain: I think the only thing I can highlight here is that if you look at our gross margin and the gain of 90 basis points, it is reflective of couple of things. One is direction of premiumization, ensuring the right product mix which is also pointing towards lower discounting.

And if you look at our inventory health, it's pointing towards much higher freshness. All in all, this is an indicator of the fact that our end-to-end growth in our GP is coming predominantly from FPS and reduction of discounts.

Kaustubh Pawaskar: Right. Thanks. And one last question, if I can. Most of our brands are doing extremely well in terms of like-to-like growth. In fact, Flying Machine for last 2 quarters, now it has got into the double-digit growth trajectory. This quarter, we have seen overall our like-to-like growth at 11.6%. So, it has improved if you look into last 4 quarter performance.

So, considering the fact that our top brands are doing extremely well. We have seen a good recovery in Flying Machine. So, should we expect this double-digit growth momentum to sustain? Or still you expect our like-for-like growth to remain in that broader range of 8% to 10%?

Amisha Jain: I think as we've also guided earlier, what we believe is that we are confident of our overall 12% to 15% growth this year. As you've seen that our performance is at an overall level at 15% this year hence, we are confident of close to a mid-double-digit growth as well.

In fact, we believe that our like-to-like and inorganic, which is coming through expansion of stores etc. will be 50-50. Obviously, it will also be a function of the festive calendar and as per the season. So, I think from a guidance and direction point of view we should assume that we will be in the zone of 50-50.

Kaustubh Pawaskar: Thank you. All the best for your quarter ahead. I will get back in touch with you. Thank you.

Moderator: We have our next question from the line of Narottam from DT Partners.

Narottam: Congratulations on the wonderful set of results. If you could delve a little deeper into the organization structure changes that you were highlighting, could you share what exactly are you changing and what milestones are you tracking? And what are the end outcome that you expect out of these org structure changes, please? That's only one question I have.

Amisha Jain: Sure. Thank you so much for asking that. As we had discussed last quarter as well, there are couple of changes that we have done. One is we've restructured towards a more business unit structure. So earlier, we used to be a brand product organization by brand, but our central revenue function was consolidated for the 3 brands.

We've moved our revenue function into our brands. So, our brand leaders are now end-to-end owners and drivers from an overall ownership, from a top line and a balance sheet point of view. That's one part of it and this will obviously lead to better accountability.

At the same time, we also believe that it allows each of these brands to thrive from just the sheer expression from a retail or a department store or a multi-brand, or an online point of view. So that's another part of it. However, we continue to be in a structure where sourcing and other enabling functions are centralized.

One other change that we have done, which I was highlighting earlier, is that we have now moved the brand function, which we are calling as the more centralized data, consumer intelligence, more marketing efficiency-led functions, and our digital function. These are centralized at this point.

This is to ensure that we are able to drive leverage across all our brands, i.e. Tommy, CK, U.S. Polo, Flying Machine, Arrow, and across our other categories as well. So that's the construct we are in, where we are in a business unit structure.

Along with that, we have enabling functions supported by this additional central function which is to drive analytics, technology, AI, marketing excellence content, and digital.

Narottam: So essentially, you are saying is that it gives greater emphasis on these functions like data and AI at central level so that you can have more oversight, while at the same time putting more accountability on the leaders to drive sales growth. That's exactly what ...

Amisha Jain: Yes. Absolutely. I would also say that while we are driving this centrally, it allows us to leveraging some of these deep central capabilities across the board as well. It also allows us to drive some of the analytics pieces across some of our enabling functions as well. So, it gives us a much greater leverage across the board.

Narottam: That's right. And where are you in this journey? And what is the end outcome that as shareholders, we should expect?

Amisha Jain: Sure, in terms of restructuring, we have concluded it and we are already organized. Our central function is also in shape in terms of marketing, digital data, and AI, like I said. Now what we have done is we've also identified initiatives around data AI, which are both going to drive efficiency and effectiveness across our value chain. Some of those initiatives are underway as well, and we are starting to see some early results.

The other thing that we started off is work around consumer analytics where we've been able to see some early fruits of reduced discounts, for example, optimization of pricing, etc.

Since you have asked the end results, this is going to be a journey for us. We are now in a new flying formation. We have few initiatives ahead of us, and we've carved out our initiatives for the full year. We should continue to see efficiencies. We've also invested towards hiring the right talent in some of these deeper capability areas as well. and we will continue to do that.

Moderator: We have our next question from the line of Avinash Karumanchi from Motilal Oswal Financial Services.

Avinash Karumanchi: Congratulations on a good set of numbers. So, there is a sudden jump in SSG during this quarter. So, what exactly is driving...

Girdhar Chitlangia: Avinash, can you be a little louder?

Avinash Karumanchi: Can you hear me, sir? Is it any better now?

Girdhar Chitlangia: Yes, this is better.

Avinash Karumanchi: The SSG jump has been like some 7%, 8% to 10% to 12%. What is driving this additional growth? Is it any one particular brand or in general, the overall portfolio is firing up?

Amisha Jain: If you were to look at our LFL growth, some of it is to do with how the overall demand landscape is right now and it is consistently what we're seeing across the board. What we are also seeing is a result of couple of things.

Obviously, PVH is back on growth, but also the other part of it is that in U.S. Polo, we did add a little bit of inventory, which is also capturing a lot more demand. So, our LFL growth is both volume and price led.

Apart from that, I will also want to highlight some of the fundamental stuff that we're doing. From a retail point of view, we have been on a journey of driving product innovation and premiumization and that continues.

The second is our enhanced focus on sharp retail execution, and that is something we've been speaking about that we will double down and continue to drive brand experience, a better experience, better service levels at our stores, and that's also leading to better conversions and ensuring that we have the right freshness and inventory at our stores. So, these are the couple of things that are helping us to drive the growth as well.

Avinash Karumanchi: Okay. Can this be taken as an indication that you are gaining market share in this market?

Amisha Jain: Yes, absolutely. I think we are seeing some of those indicators when we compare ourselves in a more multi-brand environment, we are gaining share. The other thing that is also happening is with our continued investment in marketing on an ongoing basis, our brands are getting a lift overall as well.

Avinash Karumanchi: Okay, okay. Understood. And the second question is regarding the inventory only. So, if I take inventory and receivables both put together, Y-o-Y, they were up by somewhere around INR350 crores. However, the revenue growth is up by only INR170 crores. So, what explains this additional delta in the inventory? I'm taking both inventory and receivables. I understand the channel mix.

Girdhar Chitlangia: So, Avinash, the right way to look at it is sequential data for this metric, because if you see our sequential data, both our inventory has gone up and our receivable has gone down, which is what we had also indicated in our last call. You will recollect that changing channel mix brings inventory in our books, and receivable obviously goes down because of the direct nature of the business.

So, I think what we explained last time, and again, highlighting that you look at this data sequentially, there is a 3-day increase in inventory and a 2-day reduction in receivables. Couple of points which I want to highlight is that there is an impact of changing channel mix.

You know that Amisha and we spoke about almost a 400-basis point change in channel mix, which is resulting in 6 days of additional inventory in our books. Beyond that, Amisha also spoke about some supply chain challenges from the PVH global side, and we had to inward early.

You would recollect that last year there was this whole BIS issue and availability of footwear was a challenge, which has now been resolved. So, all these 3 put together explains the inventory gap and going ahead sequentially, we'd like to just confirm again that they will both balance each other out.

Avinash Karumanchi: So, if I look at it, like I understand you are currently building upon some kind of safety net given the supply chain challenges. So, what will this be on a steady-state basis, say suppose 2 years down the line or 3 years down the line, if I look at it, how should this inventory be trending out?

Girdhar Chitlangia: Yes Avinash, our current inventory turn is around 3.5 and yes, we are working on various things. We believe that with the current channel mix and whatever our aspirations are, we are hoping that in about 18 to 24 months, this should go back to about 3.7, 3.8.

Avinash Karumanchi: Okay. Okay. Understood. One small question, if I may ask. Have you taken any pricing interventions for the rising RM price and wage hike?

Girdhar Chitlangia: I'll take that. As of now, as we explained in our deck also, long inventory cycle protected us from taking any immediate steps. But obviously, we are very watchful. Any fresh buys, if things don't normalize soon enough, our commitments for SS27 are likely to be done over the next 45, 60 days. And if the prices continue as what they are today, we will be forced to take some kind of pricing correction.

Avinash Karumanchi: Okay, okay. Understood. I'll join the queue. Thank you, sir.

Amisha Jain: Avinash, just to add to that, at this point in time, both from a cost control point of view, we are quite confident about our overall EBITDA expansion. Only in case if we feel that there is a certain pressure, we will drive minimal price increase. But at this point in time, we continue to watch.

Avinash Karumanchi: Okay. So, my question is basically coming from, is there any pricing benefit that you got because of the lower inventory which led to this 90 bps of margin expansion in this quarter?

Amisha Jain: Sorry, say that again, please? I didn't catch the last part. Is there?

Avinash Karumanchi: No, this quarter, there is a 90 bps of gross margin expansion, right? Apart from lower discounting, did you also benefit from the inventory stockpiling that you had done in the last quarter. That's what I'm trying to figure out.

Amisha Jain: No. So, it's not like that we've had to reprice or anything because of the COGS pressure, if that's what you're asking. We've continued and like I said earlier as well, our movement of GP is predominantly driven by gain in COGS, lower discounting, and overall channel mix shift towards direct-to-consumer.

A move to direct-to-consumer allows us to control our product proposition, our pricing, and allows us to optimize on our discounts as well, leading to much better sell-outs also. So, I think all in all, GP expansion and also a like-for-like is coming from the same place.

Moderator: We have our next question from the line of Deep Shah from Equirus Securities.

Deep Shah: Congratulations on a good set of numbers. And so Amisha, basically, my first question is towards the demand side. Any take on how has been the consumer -- urban consumer demand sentiment?

You also mentioned about some consumer survey in your opening remarks. Can you highlight what are the broad trends in the industry? And what are the actionables for Arvind Fashions from that survey? If you can just briefly touch upon that.

Amisha Jain: Sure. That's a great question. Thank you so much. So, at a very broad level, I will say that our consumer demand overall holds stable for our portfolio, and you can see that in our numbers. We've grown overall at a portfolio level at about 15.5%. When I go back, step back to work that we did over the period of 2 quarters is to build out what the consumer demand landscape looks like, where the opportunities are.

The one thing that the larger direction it points to is that the offtake or overall, of the casual lifestyle category is really fast and what we're seeing is that our brands are very well-positioned in that space.

So, when you look at our brands with Flying Machine sitting within as we are repivoting it to a more Gen Z denim-oriented unisex brand, which is catering to both men and women. It caters to a consumer segment which is growing fast, and again, in the casual lifestyle space.

U.S. Polo is well-positioned as a large tentpole brand, which is now sort of catering to, on one end, at a very deep level, a casual lifestyle with its polos and shirts, it caters more towards the casual work as well, at the same time, towards the socializing moment also. So there, I think U.S. Polo serves really well across the portfolio.

On top of that, from a pricing point of view and premiumization point of view, sits Tommy Hilfiger and there, again, a portfolio of casual lifestyle products, which is both the polos, shirts, and bottom wear. It continues to do well.

Then on top of that is the CK portfolio. Calvin Klein is again catering to a much younger audience, which is more from a high-net-worth point of view. So, this is consumer sitting above a household income of INR50 lakhs and above.

Now when I look at all of this, what our consumer work is pointing to, is that our brands are uniquely positioned and sitting in very, very sharp segments with a pretty deep penetration and an ability to actually keep taking on market share.

This is allowing us to drive much faster growth, both in online and offline. This is fuelling what you're seeing overall from a growth momentum point of view. So that's this part of the portfolio.

Our other categories like footwear etc given the kind of potential U.S. Polo as a brand has and the halo it has, U.S. Polo footwear caters to the on-trend sneaker culture also, and that we are continuing to see do really well in this all-day comfort category of footwear products also.

Lastly, coming to work wear, we are working and pivoting Arrow towards more catering to the modern professional of today. The brand with its strength of product innovation that it has continued to have for many decades now, we believe that Arrow is well poised to take on the work wear category, which is more evolving towards what the modern professional seeks.

So, I would say that all in all, our portfolio is sitting at the center of where the future demand lies and we are expecting that this will continue to clock sort of the mid-double-digit growth for us.

Deep Shah: Okay. Got it. My second question will be around something which you mentioned last time that for U.S. Polo specifically, we have been opening higher-sized stores. We want to showcase our product portfolio in a better way. Just wanted to check, how has been the consumer response there? Are we seeing a better throughput? How has been the consumer feedback for those higher-sized stores?

Amisha Jain: The journey of U.S. Polo will continue to be what we spoke last time as well. We will continue to increase the store square feet and upsize our stores.

So as we go through renovation and as we go through upsizing, we do believe that the potential for U.S. Polo only is going to keep increasing because like you rightly pointed out, last time we did talk about the fact that for us, now we are in a place where we believe we need more space to be able to do justice to the brand in terms of bringing the brand to life in its entirety.

With all the other expansion, the kind of denim portfolio that it carries, the shirts and the Polos, also what we have in U.S. Polo sport and beyond that, we have categories like innerwear etc also. So, as we look at this, we do want to keep expanding and keep driving upsizing.

Now the stores that we have opened, which are larger in size, continue to clock PSFPDs in the same zone as they used to clock earlier, which means with every increase in square footage, we are able to actually scale revenue much faster. So, our entire endeavour is to now make sure that we can upsize these stores. I hope that answers your question.

Deep Shah: Yes, that's encouraging. One last question, if I may squeeze in. Over the last 2 years, what we've been seeing is that all the brands are starting EOSS a bit early. Any take on the competitive intensity because demand has been pretty much rough. We have been doing good, but since last 2 years, I'm seeing that the EOSS has been starting a bit early. Any take on the competition?

Amisha Jain: I can't comment on why they are driving EOSS early. We are also seeing some mid-market sort of mid-season discounting, etc as well. But what I will also highlight is the fact that overall growth for our brands has been pretty strong in terms of the secondary sales, even if you were to look at department stores and MBOs as well.

And the like-for-like numbers for our retail are in front of you. So, when I look at it for us, I can only comment on the fact that EOSS is only relevant in the few weeks that we believe are required from a liquidation point of view. We obviously don't partake into these based on what some of the competition moves are.

At the end of the day, these are decisions that brands take based on what their liquidation requirements are. So overall, for us, we have continued to clock very solid growth, both in our department stores and MBOs and that's actually an indicator of the fact that we are not only gaining market share but also doing much better than the other parts of the portfolio that these platforms have.

Moderator: We have our next question from the line of Mohd Haris from YES Securities

Mohd Haris: Great set of numbers and thank you for the opportunity. I just want a bit of understanding with regards to both our brands, Flying Machine and Arrow. So, Flying Machine, you guys have managed to turn it around pretty well last 2, 3 quarters. So, on the ground, what is really driving it?

Is it you have managed to do a lot of product level changes? Or are we going aggressive on the store side? So that's my first question. And secondly, on Arrow, what will be the outlook for next 2, 3 years?

Amisha Jain: Sure. So, thanks for asking that. I'll talk about both the brands one by one. So, as you pointed out, Flying Machine has been on a journey where we've kind of looked at the brand. I was speaking about the consumer demand landscape some time back and what we've identified is a very unique positioning for Flying Machine.

We also have understood the fact that the brand equity and the strength of this equity is actually quite solid. So, as we've kind of gone through over the last quarters, we've gone in and sharply repositioned the brand as a denim-oriented brand, which is focusing on the youth consumer, bringing more on-trend products to the market, and at the same time, catering to both men and women and that is the direction for this brand.

In terms of product range, we have brought in a more revised line and new product range, which is catering to this consumer, catering towards this pivot that I just spoke of, again, going back to its core and its core equity of denim is showing really solid green shoots. You can also see that we went in and took our stake back of Flying Machine as well and ever since, we've been able to also scale it on digital platforms.

Upcoming H2 will also see the launch of the dot-com as well. So, the point I'm trying to make is that sharp positioning of the brand, rightsized product portfolio pivoted towards the positioning of the brand and at the same time, launching it across platforms, which are relevant to that consumer.

For this consumer, the digital platform is critical. As we do that, we will start investing behind Flying Machine from a brand marketing point of view. Again, content that is relevant from this consumer profile point of view and all in all, we believe that this will continue to hit home. We are quite bullish about the brand and definitely seeing positive double-digit traction over there. So that's on Flying Machine

Mohd Haris: Yes. On a store network, how will it -- is it looking like now? On how many MBOs would it have now, Flying Machine?

Amisha Jain: In terms of the size of total portfolio, obviously, our largest portfolio of stores is U.S. Polo, and the next is Arrow, and Flying Machine is in that journey smaller than the two. So, there is a significant headroom of growth for Flying Machine.

But the position we have taken is that we will be opening Flying Machine stores where it is relevant and to begin with, start with expanding and probably putting the right size boxes with the right retail identity, where the consumer profile is there. So, we have this concept of center of culture.

And for Flying Machine, we want to make sure that we are opening stores in the heart. And I'll give you an example. A classic example would be a more youth-oriented, university-oriented profile to kind of get the brand more grounded and going.

So, there is a direction on retail that we will take. Flying Machine does have a certain fleet, and we will be kind of going through and sifting through this fleet as well and ensuring that we are growing this fleet, relooking at the identity, etc. So there is a journey to be had on Flying Machine.

Mohd Haris: Right. And what would be the outlook for Arrow, as I asked, both on a growth and margin?

Amisha Jain: So, Arrow for us is another a very, very unique brand in our portfolio. Like I said earlier, we have a portfolio of very strong casual wear brands, which sit across price points, across consumer profiles. The one brand that caters to the consumer, which is to the modern professional of today in our portfolio is Arrow and this brand is going through that pivot.

If you look at Arrow from a wholesale business point of view, it continues to deliver. Now our focus is to continue to drive and strengthen it from a direct channel point of view. So, what you will see is more focus on right store formats, driving renovations, ensuring that we have the right product proposition and merchandising mix at retail.

And once we are kind of satisfied with that, you will see us start pushing towards marketing at that point in time. At this point in time, we are continuing to drive Arrow towards efficiency and so, that will be the key driver, which will also focus to make sure that we start pushing it towards from a profitability point of view as well.

Mohd Haris: Right, right. And I had just one more question. What would be the right way to look at the business as a whole at PAT level? Because I understand post-Ind AS accounting tends to compress a lot of our profits by front-loading our lease, rental costs, etcetera, right? So, like when can we see a bit more expansion on the -- our bottom line, especially since we have been doing very good on EBITDA level?

Girdhar Chitlangia: So, it's about 4% to 5%, depending on which quarter you're looking. The difference between pre and post will be between 4% to 5%.

Mohd Haris: And Q1 tends to be a bit compressed, right, compared to...?

Girdhar Chitlangia: Yes, Q1 -- I mean, traditionally, Q1 is a bit compressed for this kind of business.

Moderator: We have our next question from the line of Rutu Chavan from Phillip Capital.

Rutu Chavan: Hello, am I audible?

Girdhar Chitlangia: Yes. Hi, Rutu.

Rutu Chavan: Sir, congratulations on a good set of numbers. I actually wanted to understand about the store addition. So, the net store addition, that was, I think, around 4 to 5 stores in this quarter. So which kind of stores are we focusing on? And what are the regions? Like are we planning to in Tier 1, Tier 2, or Tier 3 cities? What is the strategy behind there?

Amisha Jain: Sure. I think overall, as we've quoted earlier as well, we continue to drive store additions, and we are looking at an overall, from an annual point of view, we're looking at 1.5 lakh net square feet addition this year. From a sheer management of the portfolio point of view, the way we look at store additions, at the same time, we look at about a 5%-odd closing based on which are the catchments things are not working, or is the demand shifting, etc. So that's the journey of general retail.

Now in terms of where we are opening our stores, actually all our brands are at a very different point in their journey. U.S. Polo has the largest network, and it is deeply penetrated over about 150 cities. And we will continue to drive U.S. Polo more from an expansion in the same catchments, but at the same time, upsizing the stores. We are also continuing to see all demand catchments that come up, which are relevant, and we expand the brand accordingly.

The way we will look at Flying Machine, as I had mentioned in the earlier question, is that we want to make sure that it is at the center of culture with the right consumer profile. And this is a portfolio that we will again keep driving from a Tier 1 point of view, but at the same time ensuring that within those cities as well, we are continuing to drive into catchments which are relevant to the consumer.

Now same way, I think for Arrow, is again present in more than about 80, 90 cities and this brand has a potential to grow further. We are also relooking at the box size and upsizing as well. Tommy and CK both are on a premium end of the brand, and we look at only the top end of the malls, which is the Grade A malls is where we look for these brands to go.

Now as you can see with this, the point I'm trying to make is that Tier 2, Tier 3, obviously, we will cater to the cities to your question, with the right store profile and ensuring that our relevant brands are over there.

But having said that, Rutu, I want to also highlight the fact that there are parts of the market which have demand for our brands, and we end up accessing that demand through our direct-to-consumer channels, which are both our marketplace and the new dotcom that we are going to launch.

And with this, it allows us to give consumers the access to our brands. So that's why we have a very holistic channel strategy. Our MBOs also continue to drive that demand in places where we believe that we don't want to expand with our store networks.

Rutu Chavan: Understood.

Amisha Jain: Does that help answer your question?

Rutu Chavan: Yes. Just a follow-up on this. So, the store closures that we have, gross addition is 23 and the net addition...

Moderator: Sorry to interrupt you, Rutu. We can't hear you. Your voice is breaking.

Rutu Chavan: Can you hear me now?

Moderator: Yes.

Rutu Chavan: Yes. So, I was asking that the store that we closed in this quarter, is it mainly because of the low-performing store? Or did we upgrade the store and that's why it's the closing and addition of store that way?

Amisha Jain: Yes. So, it is generally going to be a mix of both and as the country evolves, the one thing we've seen that this is a standard retail journey, that there are demand catchments that start and then they thrive and then there are some parts which start showing maybe an average or subpar potential.

We do believe it is important to prune that more from a health of the fleet point of view. So, we always keep monitoring how the demand shifts and hence, you will always see a 5% closure. Now it's a matter of timing for this quarter. Like I said, I think for us, the full fiscal year, we are looking to expand by about 1.5 lakh net square feet.

Moderator: We have our next question from the line of Devanshu Bansal from Emkay Global.

Devanshu Bansal: Hi, Amisha. Congratulations on a great set of numbers. Ma'am, I wanted to understand you have sort of talked about your brand positioning being at points where the consumer demand is very robust.

But as an industry, we are also seeing that segments like fast fashion and youth fashion are sort of gaining very strong momentum across the country. So, I wanted to check what is your thought process on these emerging spaces and whether you would also, at some point in time, play in these segments?

Amisha Jain: So, for us, when you look at our brands and what define our brands is the legacy of these brands, the strengths and the core positioning of the brands. I would like to parse out this thought process of fast fashion a little bit, because as a brand, the couple of things that we look to drive is what is relevant to the consumer and making sure that it is available to the consumer at the right time. Hence, the 2 things we will ensure we drive is being on trend.

But at the same time, the one effort that is ongoing for us is to make sure that we are getting closer to market and that is a journey for us, both from our overall brand portfolio point of view. We want to make sure that we are running our lines closer to market to ensure that we are able to capture the demand correctly.

So, if the silhouettes are shifting, if the patterns are shifting, if there is a slight shift, for example, linen is in huge demand, and we made sure that, that is available to our consumers across our brands with the right product and a really great quality product. Some of these things, we capture demand more from a closer to market point of view, and that is how we will continue to cater to the market.

The reason I'm not going to call this fast fashion is because fast fashion also alludes to having extremely high fashion side of the portfolio, which stays for a very short period of time, which is less about a brand and a brand positioning, but more capturing a certain silhouette. I would want us to kind of have this part very clear.

From a brand point of view, we want to make sure that we are homing in and centralizing from a product innovation point of view, ensuring that we are capturing the DNA of the brand, at the same time, the demand that is available in the market.

As we do that, from a supply chain point of view, we are overall looking at building closer to market lines, and that is to make sure that we are closer to the consumer demand. So hopefully, that answers your question.

Devanshu Bansal: Yes, it does, Amisha. A small follow-up on this. So are we largely closer to where we want to sort of be in terms of being closer to the market? Or it will take some time for investments in terms of supply chain to get closer to that?

Amisha Jain: No. This will be a journey for us. The industry used to run on a very long lead cycle in terms of inventory, and this is going to be a journey. The 2 journeys that we have taken on to get closer to demand.

One is to drive our D2C business. So, if you look at it, our shift towards D2C is to ensure that we are much closer to understanding the demand, sensing the demand and movement on -- from a trend point of view. That is one thing we are doing.

The second thing in line that we are doing is getting more closer to market drops and each of our brands are at a very different place in terms of this journey. This will be an ongoing journey, and this should, over a period, bring inventory efficiencies as well for us.

Devanshu Bansal: Understand. Another bookkeeping thing I wanted to understand, though, you have explained it. But does channel mix also has a contribution of better gross margin for you because if that is leading to higher inventory, it must be benefiting you from a gross margin perspective as well, right? So, is that also a contributor to your gain?

Girdhar Chitlangia: Yes. A changing channel mix towards retail and online B2C yields a higher gross margin.

Devanshu Bansal: Okay. And lastly, sir, obviously, at EBITDA level, your growth is very strong. So, I wanted to understand what led to this fall in other income? And how do you see this sort of panning out in the coming 2, 3 quarters?

Girdhar Chitlangia: Devanshu, last year, first quarter, there were quite a number of COCO stores, which were closed and there was a gain in the unwinding of the Ind AS 116 transaction accounting. Going ahead, we believe that whatever closure will be a balanced mix of stores, and we don't seem to be seeing any adverse spikes in other income. So, it is largely going to be stable around INR7 crores, INR8 crores, what we reported this time.

Moderator: We have our next question from the line of Ashutosh Joytiraditya from ICICI Securities.

Ashutosh Joytiraditya: So firstly, Amisha and team, I would like to congratulate the team for the great work they have done for Arrow and Flying Machine Actually, I have visited the store, and the kind of assortment, the visibility, and everything, it was like at a great level, and really great work by the team there. So, congratulations on that front.

My first question is on the freshness part. So, the management has been highlighting this, I think, for the last 2, 3 quarters that the freshness has seen at the peak level. So, I just wanted to understand what at the back end has basically resulted in this kind of freshness. What changes has been made specifically on the supply chain side?

Amisha Jain: So, largely freshness is also indicating to the fact that we are hitting -- sell-throughs the way we want them to and the fact that our inventory freshness is at an all-time high is indicating that our ability to sell out the products that we are bringing in, stuff that we are bringing in from an agility and supply chain point of view closer to time is helping.

At the same time, we are able to liquidate our old season inventory in time as well and this is an ongoing journey, and I think we will be on this journey for some time.

Ashutosh Joytiraditya: Okay. Okay. Understood. So, my next question, so I think sir has briefly touched upon this other income part, but my question is more on the minority interest. So, the kind of PAT suppression, which has been seen can be attributed to the increase in minority interest also.

So, it's like suggesting that there has been -- the profit growth has been disproportionately concentrated towards the PVH JV and not that much to our own 100% owned brand. So how should we see this going ahead? And can we expect any significant improvement there on that front?

Girdhar Chitlangia: You see, I think if you're looking at minority interest as compared to last year, quarter 1 -- there used to be a Flying Machine minority interest also, which is not there this time. So, what you see now is purely PVH Brands share of the minority interest.

Secondly, Q1 usually, as I spoke earlier on the call also, is an average quarter for us and as we see progress into the year, because of the festive season, the Diwali, the winter, our Q3 and Q4 results are pretty good in terms of how the business performs.

So going ahead to answer your question, you will see that there will be an improvement in the minority interest. I mean, of course, the performance of PVH, which will lead to a higher minority interest.

Ashutosh Joytiraditya: Okay. And just an extension to that on the P&L itself. So this -- the higher expenses, the staff and the other expenses, like I think the management has already highlighted that, that is mostly because of the wage hike and the other operational inflation that has happened.

So just wanted to understand like how much of this cost increase would be like front-loaded investment on our newer stores and how much of it would be the structural inflation aspect?

Amisha Jain: If you were to look at it, overall, we have also mentioned earlier that we continue to invest in marketing and our EBITDA is post 50 bps investment in marketing and that is one part of it. Overall, our costs have largely been in line with our channel expansion.

The one thing that I did speak of earlier as well is that as we're trying to put through some of these areas of future growth, we have invested behind people and resources towards our growth drivers. So that's also one more of the investment.

But all in all, if you'll see our overall EBITDA performance, GP to EBITDA is pretty much showing that our costs have been maintained, and it's only the higher investment in marketing of about 50 basis points.

I also want to highlight that we've expanded margins by about 200 basis points over the last 2 years with a sharp focus on cost and other efficiencies as well. So, the way I look at it is, as we expand and scale with double-digit growth, we will continue to see operating leverage overall in the business.

Ashutosh Joytiraditya: Okay. Okay. And on the inventory bit, so we have seen increase in the inventory days and that is like mostly because of the early sourcing which the company has done. But my question is that what if the consumer demand in, say, the second half of the fiscal tends to soften, which I think there is a concern which you have also highlighted. So can we run a risk of impacting the FCF there? And if that is the case, then what could be the possible measures we could take to mitigate this risk?

Amisha Jain: At this point in time, the way -- and as you look at our performance, both from an online, offline point of view and also our secondary sales across the board, our demand has been holding. Our brands are hitting out of the park compared to competitive brands also in multi-brand environments.

So, we don't see a slowdown or a major shift the way you are describing in terms of demand. As I've also mentioned earlier that we are watching this space and if we see inflationary pressures, both from a COGS and a cost point of view, we will make sure that we, a, drive much tighter cost controls, and that's already something that we are looking at. If required, and only if required, we might look at a pricing action. But at this point in time, like I said, it's just a watch item for us.

Ashutosh Joytiraditya: Okay. And one last question, ma'am. So, on this AI bit, so is it possible to highlight a few of the tangible impacts which we can see from the AI implementation on maybe the operational efficiencies or maybe the SG&A side, if you can just highlight over the medium term?

Amisha Jain: So as we are investing, we are starting to see early results. Like I said, one initial read is in terms of the way our analytics is driving from a discounting point of view. Now this is going to be an online journey for us, both online and offline. Our investments in analytics, technology and AI are going to continue.

Like I mentioned in my opening remarks also, very early days, early results. As we go, we have our sort of our charters planned out some of the things that we want to drive. So, as things go, we will see how we can kind of share some of that.

Moderator: Thank you. Due to time constraint, this would be the last question, and I now hand the conference over to Mr. Girdhar Chitlangia for closing comments. Over to you, sir.

Girdhar Chitlangia: Thanks, Manav. Thank you, everybody, for joining us on the call today. If you have any more questions, please feel to reach out to me and I'll be happy to take them offline. Thank you so much. Have a good day.

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