"Arvind Fashions Limited

Q2 FY27 Earnings Conference Call"

November 03, 2026

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Moderator: Ladies and gentlemen, good day, and welcome to Arvind Fashions Limited Q2 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 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 from Arvind Fashions Limited. Thank you, and over to you, Mr. Girdhar.

Girdhar Chitlangia: Thanks, Sidhant. Hello. Welcome, everyone, and thank you for joining us on the Arvind Fashions Limited's Earnings Conference Call for the second quarter ended 30th September 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 were 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 strategic thoughts on our second quarter performance. Post that, Amisha will 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 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 Q2 results. We are pleased to share that AFL has delivered its highest ever quarterly revenue and EBITDA for the second quarter ended 30th September

2026. This is backed by a strong performance across channels despite geopolitical uncertainty and inflationary pressures.

The demand environment for us remains stable and positive. This trajectory of impressive growth and high-performing business outcomes is the result of sustained efforts across all fronts in our business. Despite festive and online tower event shifts, this quarter, we have achieved a top line growth of 10%, aided by higher marketing investments. Adjusted for the shifts in festive and online tower events, we grew by nearly 15%.

I'm happy to share that the business delivered a very strong 67 basis points EBITDA expansion. Better channel mix, a strong like-for-like growth and lower discounting led to a strong gross margin expansion. Our investments in brand and people, coupled with focus on superior retail execution have enabled us to deliver a very healthy like-for-like growth of 7.3% in retail and 28% in the online direct-to-consumer channel. Again, adjusted for festive and online tower events, we delivered a 10% LTL growth and a 45% growth in the online B2C business. Our PAT grew by nearly 30% as compared to the same quarter in the previous year.

We remain committed to maintaining our growth trajectory through investments in tech and AI initiatives, keeping the consumer at the core and building a strong direct-to-consumer business by expanding the retail network and continuing to grow in the online B2C channel.

We remain watchful of external headwinds and will manage pricing and costs proactively to mitigate any downside impact and continue to stay focused on our mantra of profitable growth, resulting in further improvement in capital -- return on capital employed and strong cash flow generation.

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

Amisha Jain: Good afternoon, everyone, and a warm welcome to our investor call for Q2 FY27.

Continuing the trajectory that was set in FY26, all our drivers of performance are firing and have helped us deliver a very strong Q2 despite the festive and online tower event shift. We have continued our double-digit growth trajectory in Q2, with GM, EBITDA margins and ROCE up. All our brands have delivered as per our expectations.

1. **Revenue momentum continues as per guidance:** Q2 revenue grew 10%, with NSV at INR 1,559 crores versus INR 1,418 crores in the same quarter last year. Adjusted for festive and online tower event shift, we have grown nearly 15%.

2. **Profitability is structural:** Gross margin has increased by 136 bps Y-o-Y, aided by strong LTL with lower discounting and better channel mix. Our investment in marketing is also up 24 bps on a Y-o-Y basis, and our focus on costs has helped EBITDA expansion. EBITDA, excluding other income, was INR 216 crores versus INR 187 crores. That is a 67-bps improvement and 15.5% growth over last year in absolute terms. PAT came in at INR 48 crores versus INR 37 crores in Q2 last year, a growth of 29%. On a pre-Ind AS basis, EBITDA and PAT grew by 18% and 38% respectively.

3. **Inventory & Working Capital:** While inventory days have gone up, there is a corresponding decline in receivable days. This keeps GWC days stable at 157 days, the same as the previous quarter closing. NWC days are flat at 65 days.

On Channel performance

- Our D2C engine is continuing to grow: Direct channels now account for 53% of sales, up nearly 380 bps year-on-year.
- Retail grew by 15.4%. We delivered a robust LTL of 7.3% in retail; adjusted for the festive calendar shift, retail LTL is 10%. 24 EBOs were added in the quarter.
- Online B2C grew by 28% in Q2, taking its share from 12% to 13%. This is in line with our intent to pivot away from B2B online. Adjusted for the festive and online tower event shift, online B2C grew by 45%. We also launched the Tommy Hilfiger website and app in September, and the remaining brands will follow in quick succession.

  Wholesale**:** Primary sales grew at a high, double digit in Q2. The channels are now well stocked to cater to the upcoming festive season.

On Brand performance

- USPA continues to deliver strong performance, with high revenue growth, LTL and profitability expansion. This growth is on top of a high base in Q2 last year.
- PVH brands are gaining momentum and have recovered from their GST setback.

- Arrow and Flying Machine are in a transition year. Our focus is deliberately on enabling structural efficiency over near-term scale, and on setting the brands up for success going forward.

FY27 balance of year Outlook

As we enter H2, both Pujo and Diwali sales are tracking very well to our expectations, and we are clocking near high double-digit LTL. The overall consumption pattern remains positive during festive, with consumer sales across all channels showing encouraging offtake.

On the macro, we continue to remain watchful of external factors like inflation, geopolitical developments, a potential El Niño effect and repo rate changes. We will take proactive steps to mitigate any inflationary impact through smart pricing and cost control. Our focus remains firmly on:

- accelerating profitable growth across our marquee brands
- deepening consumer engagement
- increasing the share of direct channels
- driving efficiency across the business

We are confident of delivering our guided growth and EBITDA objectives.

Capex, Cash Flow & Debt

Capex

- In H1, almost 100 crores of capex was spent on the following: A new shirt manufacturing factory in MP
- A new corporate office: we have been in the current office location for nearly two decades & business requirements have outgrown our current office.
- Store expansion

As mentioned in our previous call, we have been working to further strengthen our India based sourcing & as a step towards this, we are setting up a shirt factory in MP. This will serve as a de-risking strategy for imports from Bangladesh which over the last 3-4 seasons have been impacted due to geo-political disturbances. The depreciating rupee is also adding to our sourcing costs. This is a state-of-the-art new age manufacturing set up & will serve as an important proof-of-concept to get us closer to the market. At a steady state, the factory will produce 3L units month & will meet 25-30% of total shirt requirements. We expect a payback of 3-3.5 yrs on this investment.

Cash

1. Cash requirement in our business is at its peak in Q2 & given the seasonality in our business, there will be a natural unwinding in working capital in H2.

2. In H2 FY27, we estimate cash release of 150-175 crores of free cash flow.

3. A large part of this will be used to pare down the debt.

Our vision and way forward

Our strategy rests on 5 pillars, and over the last 2-3 quarters, we have steadily moved from strategy to execution on each of them. I will list out the 5 pillars:

1. Portfolio diversification: We aim to deepen our leadership in menswear by establishing a top position in our largest 5 apparel categories: shirts, polos, denim, t-shirts and blazers. At the same time, we are doubling down on adjacencies like footwear and innerwear, which are already contributing to 25% of our business.

2. Building differentiated brands of scale and desire: Our portfolio of 5 brands has meaningful headroom to grow. The unlock is sharper positioning, deeper consumer connection and a strong merchandising grid led by innovation across our brands.

Along these lines, we continue to scale US Polo and on Arrow and Flying Machine, we have initiated focused work across brand positioning, product-market fit, and channel and marketing strategy.

3. Building a world-class direct-to-consumer organization: We will continue to double down on our D2C journey, with a vision to take the share of D2C to 65%. Driving retail excellence and building a digital powerhouse remain our priorities.

Offline retail: We will continue our expansion and upsizing journey with a relentless focus on LTL and conversion, driven by the right product, brand experience and service.

Building a digital powerhouse through our dotcom and marketplace partnerships: We expect each brand to have its own dotcom and app live this fiscal year. These will be the foundation for a great brand experience and scalable commerce.

4. Transforming with data, analytics and AI: This is a key growth driver for us and not a back-office initiative. Our investments will target two outcomes: leveraging AI to drive cost efficiencies across functions, where we have already piloted use cases in finance and sourcing

Leveraging analytics and AI to drive front-end effectiveness, in areas such as retail excellence, pricing, assortment and marketing effectiveness

As mentioned earlier, we have put together a specialist team that is now working on tech, AI, consumer analytics and growth. Further, we have also set up an AI Governance Council. This will ensure that each use case delivers measurable productivity gain and the knowledge gets institutionalized within the organization.

5. A nimble supply chain that sits closer to demand, which should yield shorter cycles, faster reads and less inventory risk. As mentioned earlier, we are setting up a new shirt manufacturing facility which will help us get closer to the market.

As we've spoken about before – in order to deliver on these strategy pillars, we have reorganized ourselves into a business unit structure for sharper accountability and speed. At the same time, we have centralized consumer brand marketing, digital, and data and AI initiatives to build deep, leverageable capabilities.

To summarize, with a clear strategy and the right organizational design now in place, we are confident of sustaining mid double-digit growth in the balance of the year, with 30 to 40 bps of EBITDA margin expansion. With the unifying goal of one team, one mission, driving cohesiveness and collaboration in Arvind Fashions Limited, we are poised to embark on the next phase of growth.

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

Moderator: Thank you. We will now begin the question-and-answer session. The first question comes from the line of Avinash Karumanchi from MOFSL.

Avinash Karumanchi: My first question is regarding the gross margin. So, for the last few quarters, we have been fronting the inventory in anticipation of price hikes. So, my question is like out of this 140 bps, how much of the margin expansion would be attributed to this? And how much would be to the savings on discounts or higher preimmunization?

Girdhar Chitlangia: I will answer that, Avinash. You see, as we have explained in our previous quarter, we are in a very long lead-time inventory cycle, right. So, the cost impact for us will come only when we launch the new season product in SS27'. Hence right now, most of the gains are because of the discount improvement and changing channel mix.

Avinash Karumanchi: You are saying that even in the third quarter, you'll be still sitting on a low-cost inventory. Is that right?

Girdhar Chitlangia: Our earliest impact will be when we start in warding products in January.

Avinash Karumanchi: So, second half also should see a similar kind of gross margin expansion?

Girdhar Chitlangia: Yes. I mean, gross margin expansion is a function of changing channel mix which means, if channel mix changes, which we are, of course, working towards that, it should.

Avinash Karumanchi: Second question is regarding PVH performance. So, can you give some sense on how the brands have been doing after GST? Because if I look at from the minority interest, there was no growth at all there for the PVH.

Amisha Jain: PVH brands for us continues to grow and as I said in my comments, PVH brands are on growth trajectory. The GST impact is behind us, and it does continue to grow. If you look at the minority interest year-over-year basis, you will see an increase in that.

Girdhar Chitlangia: So, there was likely a low on the minority interest in Q3 of last year. Since then, it has shown an upward trajectory. The growth in the PVH brand products, they are in high single-digit, almost touching double digits now and they have also delivered a very high single-digit for AFL as well also.

Avinash Karumanchi: My last question is regarding the cash flow generation. So, this INR150 crores to INR170 crores, are you referring to the cash flow from operations or FCF after capex?

Girdhar Chitlangia: No, this is FCF, Avinash.

Avinash Karumanchi: So basically, my question is coming from this quarter. You have seen wholesale, there's a good amount of growth despite the festives moving into the next quarter. So what led to this kind of growth in the wholesale business?

Amisha Jain: If you look at our last few quarters, our consumer sales uptake has been pretty solid in wholesale. There is a movement in terms of primary sales we have wholesale channel is stocked and ready for growth from an upcoming festive season perspective.

Avinash Karumanchi: So, both primary and secondary are tracking together. This is not because of any kind of front loading the wholesale growth.

Moderator: The next question comes from the line of Karan Gupta from Asset C. Mehta Investment.

Karan Gupta: My first question is on the gross margin side, 136 basis points of expansion. As you said, low-cost inventory you have earlier from the previous quarters, how much the inventory you have for the upcoming quarters and when the new pricing of inventory will come up in the channel?

Second question is on the breakup of gross margin. If you can share that how much you get from the sourcing of the raw material or the finished goods from maybe the brands and how much you got from the EBITDA from the manufacturing side?

Girdhar Chitlangia: The 136 or 140 basis point improvement is largely coming 50-50 between cost improvement as well as channel mix and discounting. And to your question on how much stocks we have, all our early AW26 inwards are at previous pricing and as we get into the new season or the last drop of the AW26, we will see increase in cost. But having said that, our cost increases will be mitigated, as we have said earlier also by an approximate increase of 1.5% to 2% in our MRPs.

Karan Gupta: But we can see on the manufacturing expense side, there is a 100-basis point of increase -- and on a sequentially if you check or Y-o-Y basis, after gross margin, there is an increase in the manufacturing expenses Y-o-Y basis on a couple of quarters. When the older inventory gets replenished by new inventory, then what will be the estimated impact on the gross margin side and the EBITDA margin side?

Girdhar Chitlangia: I've answered that already. Manufacturing and selling expenses are largely also related to the changing channel mix. So the cost increase is largely reflective of our changing channel mix.

And to answer your question on how much will be the cost increase. As we speak, I think our cost increase will be about 5%and we are confident of mitigating that through MRP increases.

Amisha Jain: I just want to kind of step back on gross margin a little bit. As Girdhar has mentioned, there are 3 things that are driving an improved gross margin. One is lower discounting, second is overall product innovation and premiumization in our portfolio and the third is the channel mix change.

All three of these impact the way the product pricing goes and hence, also how you see the GP improvement as well. Now as our brands have been premiumising over a period of time, there is a significant offtake in the brand, and that's the journey of our overall strategy.

As the next season comes in, while we may have had to take a little bit of pricing action here or there, while we remain confident around our pricing power. We do believe that the premiumization journey and product mix has enabled us to drive better consumer demand as well.

Karan Gupta: But the premiumization part, how much you are seeing that the margin expansion will play out due to premiumization, because there will be some part and even if you say the channel mix, how much channel mix will drive the gross margin side?

Girdhar Chitlangia: We have said in the past that we are on a journey of changing our channel mix towards the D2C business. So that includes retail and online B2C. This quarter, it was 53% and our holy grail on this is approximately 65%. So, you will see this journey continuing over the next few quarters.

Karan Gupta: The 65% you are saying is the gross margin.

Girdhar Chitlangia: 65% channel mix for retail and B2C.

Moderator: The next question comes from the line of Mohammed Haris from Yes Securities.

Mohammed Haris: If you can please give us some details on how the wholesale and retail mix changes across brands, that would be helpful.

Amisha Jain: I think overall, the journey the company has been on is to move towards direct-to-consumer. We've spoken about that in the past where both our retail and online B2C is going in an upward direction. All our brands are on

that journey. So, in terms of the brand mix, yes, there are brands which would be probably a couple of basis points lower.

But overall, currently, the number that we have kind of highlighted also is that our mix from direct-to-consumer or rather retail and online B2C is 53%. And we are looking to kind of drive this upwards to about 65%.

Mohammed Haris: So, I was just asking, for example, a brand like Arrow, would it be having a much higher contribution wholesale compared to, say, U.S. Polo.

Amisha Jain: Relatively, yes, Arrow is on the journey to move towards direct-to-consumer and there has been a significant uptake in online as well. Arrow has more wholesale presence compared to U.S. Polo. But just to kind of give you something contextually, the direct channel performance is about 35% -- showing about 35% growth in online B2C for Arrow.

Mohammed Haris: Another question on the marketing front. So, we have been consistently guiding to improving our marketing spend. I wanted to understand like where is it going? Is it towards brand ambassador investments or social media marketing, where is bulk of it which is being spent.

Amisha Jain: Marketing is not a peanut butter approach for us. Across our brands, it's a very different -- each of the brands has its own marketing strategy. And at this point in time, what we are after is to ensure that we are driving the brand priorities through the channel, which is most relevant. So, to give you an example, the way we would think about a Flying Machine versus the way we would think about a U.S. Polo would be very different.

For example, you would have seen a few campaigns with the maharaja of Jaipur, Pacho' out there in case of U.S. Polo vis-a-vis in Arrow, you will see us talk a lot more about functional benefits and product marketing through the social and online channels.

In case of Flying Machine, the same will apply. You'll probably see a little nimbler bite-sized content coming up through, again, our social channels. So -- it's not a one size fits all sort of a thought process. It's also a lot to do with where the brand is in its journey.

Mohammed Haris: Just one accounting related question. You have these inventory numbers, which are mismatching both in the presentation and compared to the results report. So, if you can clarify that.

Girdhar Chitlangia: So, there is a returnable asset difference. I will connect with you separately and explain that.

Moderator: The next question comes from the line of Kaustubh Pawaskar from ICICI Direct.

Kaustubh Pawaskar: My question is first on Flying Machine, if you can help me understand how was the performance if we compare it to earlier quarters? Have we seen any improvement in growth? And after a lot of changes done in the brands and in the portfolio, are we witnessing any improvement or recovery in the growth of Flying Machine?

Amisha Jain: Yes. Thanks for the question. So, Flying Machine, actually, we're quite bullish around it. There are a couple of things about which we've spoken about this in the past, and that I'd like to highlight. First is that we've gone through this journey of building out a sharper positioning for Flying Machine.

And if I were to kind of highlight, we typically would like to describe in 4 key outcomes. Flying Machine is being built as him and her brand anchored in denim on trend and targeted towards the Gen Z and younger audience. Now if you look at the channel strategy, given the kind of audience that we're looking to sort of speak to, obviously, online becomes a great platform. And what we are now doing is expanding our online presence.

We have actually expanded Flying Machine's presence across all marketplaces. Post our Flipkart shareholding acquisition in AYBPL we've made sure that we have actually expanded the brand across the other platform. And the direct channel contribution has improved over there by 3 percentage points. So, we are well positioned to kind of scale this and grow it faster. As we build this out, we will continue to go after much sharper marketing initiatives as well, and that's what we've been doing.

That's showing a solid green shoot as well. Like we had mentioned, for us, this was a very important season, and we continue to see performance as per our expectations in H1, H2 is off to a good start as well.

Kaustubh Pawaskar: Ma'am, my second question is on -- we are focusing more on improving our presence on D2C channel, and we are also trying to improve the mix in terms of the revenues. But there are other brands which are coming in this space, especially who are largely focusing on the D2C platform. So, in that context, the competition which is building up in the market in this space, how are you looking to tackle this competition? Or what would be your specific strategies to compete with some of these new players who are coming in the market?

Amisha Jain: Sure. So first big thing, I think, around Flying Machine is that as we think about it, the audience that we are catering to also kind of drives the thought process on how we want to build our supply chain. So, unlike a traditional brand, Flying Machine is now being built on faster and more frequent drops in the market, which would enable us to kind of basically have more options available to the consumers at a higher frequency.

What that does is allow us to catch trends faster and like I mentioned, from a positioning point of view, this brand is an on-trend brand and the way we will bring the products to market that will ensure that we are able to drive that with the consumer.

The second thing which will kind of help us drive is also the way we are looking at our marketing strategy around the brand. And like I mentioned earlier as well, we are looking to drive more bite-sized content, that is more consumable by this generation. So, I think some of those things will kind of differentiate what Flying Machine looks like vis-a-vis other brands, not just in our portfolio, but overall. And that will also allow us to compete with the direct-to-consumer brands.

Having said that, I just want to also highlight that when you look at this consumer, this is a consumer that is seeking to drive and build engagement with the brands as well. And so, we believe that a brand that does a really

good job of engaging with the consumers more from a long-term point of view has a very solid chance of staying in that consumer's wardrobe.

I don't see a D2C brand as a competition alone. The points we should also consider is what is the consumer really seeking. And our entire effort is to ensure that we are catering to that consumer through the channels of their choice. And as this choice shifts, as their preferences shift, we will ensure that we will pivot in that direction as well.

Kaustubh Pawaskar: My question was specifically for all the brands in your portfolio because we have seen that a lot of launches have come in as a style of apparel, which are their D2C brands. There are a lot of brands which have come up, which are largely funded brands, and they are trying to grab certain share not only on the D2C channel, but once they get that space on D2C channel, they obviously look to enter the market through the retail format. So, in that context, how we are looking to compete with some of the funded brands who are trying to create their own shelf space into the retail format, both on D2C as well as retail.

Amisha Jain: Sure, If you were to step back and look at the journey over the last couple of decades, brands have come in and gone. The one thing that stays is brands that have done well over this horizon and that have actually established themselves as brands and not as labels.

As long as we have a very strong positioning and product market fit relevant to that consumer and if the brand is relevant in the life of the consumer, the consumer comes back. The second thing is our product portfolio which is led through innovation and that's one thing which is the strength across our brands. Product innovation is central to whatever we do.

We are also driving a premiumization strategy, which ensures that we are actually upgrading our product. We are ensuring that we bring innovation, we upgrade the product, and that is allowing us to kind of be at the center of culture. So, to answer your question, there will always be labels that will keep entering the market. As long as the brand has a solid engagement with the right TG, we will continue to see momentum. And that's what we see.

If you look at U.S. Polo since you mentioned that, it has been clocking significant double-digit growth consistently over the years and what we are seeing in the current quarter as well and in the festive coming up, we are seeing high double-digit growth in terms of L4L as well.

So while I understand your question, I think the larger point is that our brands are hitting the note predominantly because of the way the product is aligning, the communication is aligning with the consumer and how our channels are being stacked up. Last but not the least, our direct-to-consumer approach is predominantly what we have driven the idea of driving direct-to-consumer was to ensure that we can create this engagement with the consumer.

So as we move towards our strategy towards getting to about 65% between retail and online, we do believe that we will understand the consumer signals more deeply. We will be able to take that feedback very quickly and then produce more frequent drops.

I also want to highlight is the fact that our strategy to drive closer to market drops in all our brands is on point to deliver exactly against what you are talking about. Hence all in all, across product, channel, marketing and our supply chain initiatives, we are quite confident that our brands will continue to serve the consumer for the years to come.

Kaustubh Pawaskar: My last question is a clarification. I just want to know whether we have taken any price increase year-to-date. Or are we planning to take considering the raw material movement because since we have low-cost inventory in quarter 3, so are we looking at taking the price increase maybe in Q4? -- just trying to understand.

Amisha Jain: So pricing, product mix strategy is something we typically evaluate quite dynamically. Pricing is not a cost-plus action for us. We look at the product mix, ensure that as the product gets upgraded, we are driving the pricing action accordingly as well. So there needs to be some value that the consumer wants to pay towards a certain product and that's how we typically think about it.

There has been a marginal increase in pricing, and we will see that as and when or if we need to take any shifts because of inflation. But at this point in time, I'll just say there's a marginal movement.

Moderator: The next question comes from the line of Jaymin from Ardeko.

Jaymin: Congrats, Amisha on completing the first year. Now, when you just look back, I mean, last 12 to 15 months, could you share your early wins you would attribute to your leadership?

Amisha Jain: I couldn't catch the last part. Could you repeat?

Jaymin: I mean, any early wins that you would attribute to your leadership which you have generated at the company level?

Amisha Jain: Understood. So you're talking about -- if I understand correctly, as we kind of set out with this new strategy that we put in place, what are the early wins that we're seeing? Is that -- did I understand your question?

Jaymin: Yes, yes. Right.

Amisha Jain: Thanks for asking that question. I want to go back to the strategy and maybe talk about a few things. I did describe earlier the 5 pillars on which we are working. The first one I do want to talk about is the portfolio diversification across our marquee brands. The one thing that we said is that we will go after our top 5 largest apparel categories in menswear, and those are shirts, Polo, denim, T-shirts and blazers.

And if I were to just look at these 5 categories, we are seeing significant share gain in shirts, Polo, denim, and we continue to do really well across our brands over there. U.S. Polo denim offtake has been quite significant and so is shirts.

I would say that along with that, footwear seems to be on an extremely solid growth trajectory along with innerwear as well. So that's one place where we said that we want to go after a very sharp portfolio diversification. Having said that, we also wanted to go deeper across some things, and we've been on point on that strategy.

The second thing I do want to highlight is that across the portfolio of brands, we did say that we want to build a world-class direct-to-consumer organization, and that's been moving in a great direction. This quarter, we have seen a 380-basis points movement in terms of direct-to-consumer.

So that upswing along with like-for-like, given that we are backing our retail with solid initiatives around retail excellence, that's been on a good offtake as well. To just highlight, and I've spoken about this in the past, for us, retail is about detail. We want to make sure that we put the right product.

We keep driving great brand experience through great visual merchandising and service. And as you will see that, that is reflecting in the conversions and our like-for-like consistency. This quarter itself, while it's not a festive quarter, we have seen a like-for-like of 7.3% across our portfolio.

And currently, as we speak, the festive season is showing high double-digit growth in terms of our like-for-like as well. So that's the other big thing that we've seen. The third thing I do want to highlight also is that we started our journey on data analytics and AI in a big way and we organized ourselves to be able to build initiatives around this. So, we did put in a team. We resourced ourselves around it and that has been starting to show early shoots, green shoots there.

And these initiatives are both around cost efficiencies across functions and to drive certain front-end effectiveness. We do believe that some of these initiatives will show over the next couple of seasons, we will see those benefits coming in as well.

Closer to market is an important initiative for us. And as part of our nimbleness across our supply chain, we're also driving a very strong S&OP process to make sure that we improve our overall inventory effectiveness. We are able to kind of ensure that we have an end-to-end view and so that we can manage the inventory turns better as well. So some of those initiatives are underway.

Jaymin: And would it be safe to assume that part of this will be reflected in spring/summer season?

Girdhar Chitlangia: Sorry, we are not able to hear what you are saying, Jaymin.

Jaymin: I mean, ma'am, just wanted to understand, I mean, part of the initiatives that you highlighted, that would be visible I mean, the tangible benefits of that initiative would be visible in upcoming spring/summer season?

Amisha Jain: See, I think the benefits of our closer to market or our direct-to-consumer strategy or our strategy to double down on certain categories, all of that is already starting to kind of show and this is going to be a journey. As we bring in a new season, some of these things will start showing up in the market. So, to answer your question, yes, we should be seeing & continue to see some sort of the benefits coming through over the next season.

Jaymin: And can you walk us through the store expansion plan for the second half because the net square foot addition, appears to be slower.

Amisha Jain: As we've mentioned earlier, we do want to continue to invest and scale in our stores. Retail is important. Retail strategy is about 2 things. One is to drive upscaling and upsizing of our retail stores across our brands. Again, each brand requires a certain type of store to bring its assortment to life. So, I think that is particular for every brand, that's one thing that we will continue to drive. The second thing is we also want to make sure that we have stores in the right locations.

And as we add more stores to our fleet, we are also quite cautious around the fact that these stores are showing up in the right malls and on the right high streets, et cetera. So, you will see us keep adding square footage. Like we had mentioned earlier in our guidance that we do want to make sure that we continue to open stores in the zone of about gross opening of about 150 stores., We'll continue to add about 12% to 15% net square feet addition in this fiscal year.

Moderator: The next question comes from the line of Aabhash Poddar from Aionios Alpha Investment Management.

Aabhash Poddar: You explained Flying Machine could you please help us understand for Arrow as well what are the initiatives you have? And what are the milestones that

you will look for this brand? And also, along with that, for the first half, if our LTL is 11.5% and 7%, respectively, has Arrow also grown by a similar number? That is question number one.

And question two, if you could just talk a bit about franchise health as well because from what I understand, we continue to target a 12% to 15% revenue growth on an overall basis. And along with that, we also target a similar square footage addition. Ideally, the revenue growth should be faster than the square foot addition, right? So, if you could just share some thoughts here. These are the two questions.

Amisha Jain: Are you asking that the revenue growth should be faster than the square feet addition?

Aabhash Poddar: Yes. So, if we are adding 12% to 15% net square footage, if we keep on improving our revenue per square feet, ideally the revenue growth would be faster, would be my understanding. If you could just help me understand this better?

Amisha Jain: The revenue growth is made of two parts. One is like-for-like from a current fleet and then the additional square footage that one would add and topping up with the annualization of it. As we add more stores and the productivity is maintained, it will continue to add to the overall retail growth. If you were to see our total retail growth in this quarter, it has been about 15%. and that is a mix of both the 7.3% like-for-like and rest is the inorganic growth. So, I would say that you'll continue to see us scale in that zone over the years.

Aabhash Poddar: And on the Arrow, if you could just talk a bit about.

Amisha Jain: Yes. As we started this work about 3-4 quarters back, we did go back to the drawing board to say that what is the consumer looking like? What is the consumer seeking from this formal wear space? We wanted to kind of figure out what is the journey with Arrow going forward, just like Flying Machine. We defined the consumer segment and the consumer proposition of Arrow as catering to a modern professional from the lens of driving product innovation through functionality.

So, for example, when I say functionality, breathable shirts or whether it is wrinkle-free, so basically functionality-led product is one thing, and we wanted to make sure we double down on innovation in that space as well.

Craftsmanship has also been a very key anchor of Arrow, and that's another area that we are kind of building from a product range point of view. So we went back and said that what is that modern professional seeking from us, and we've defined a few attributes just like Flying Machine to say that this is what the framework of Arrow is going to be.

Now as we've established that, we are sort of now going deeper and saying that what does that mean from a brand positioning point of view? What does that mean from a product range point of view? As we look at AW this season, we have edited the range to cater to that consumer.

Arrow is a larger brand compared to Flying Machine. So Arrow is going to be also on this journey of sort of as we go through the product range assortment to be edited out. As we bring in new innovation, you will see that coming through our retail stores over a period of time, as we sort of start implementing some of these initiatives.

The second thing with Arrow is that we also defined what our marketing strategy around Arrow will look like. And like I had mentioned earlier, unlike the U.S. Polo for us, Arrow is a lot about speaking about the product benefits. So you see a lot of product marketing-related campaigns coming out in Arrow and not so much a celebrity sort of a conversation. The third thing is we are closely looking at the Arrows, both retail fleet and online and what we have also recognized that we need to accelerate our direct-to-consumer access.

You will also see that in this last quarter; the online performance of Arrow has been actually quite solid. So, Arrow continues to move in the right direction. If I were to just look at the absolute last 1-month, festive performance has been pretty solid. And as the wedding season, et cetera, comes up, we are expecting that Arrow will continue to show momentum.

Aabhash Poddar: So, would it be fair to say that going forward, Arrow should, if not more go in line with the company growth and the initiatives, whatever you have taken

are in the revenue terms, at least it will start showing up and eventually, it should translate into the specific brand profitability. Would that be a fair statement?

Amisha Jain: Yes, Arrow will continue. We want to make sure that we are driving sustainable, profitable growth and hence, our focus will be on enabling structural efficiency in the near term and ensuring that we are able to scale on top of a very solid base.

So things like ensuring closer to market shirts that are being brought to the market, right, to make sure that we are catching trends. Certain things like that will drive revenue growth. But before anything else, we want to make sure that we are able to drive structural efficiencies in the business.

Moderator: The next question comes from the line of Rajiv B from Nuvama.

Rajiv B: I would like to know what is the outlook on your net debt-to-equity number or net debt-to-EBITDA number? And in that context, why this manufacturing facility at our end, and because we have a sister concern who is into this manufacturing bit, probably they could have done it. And I was thinking that our positioning is largely on the retail side. Why get into manufacturing at all and it would block capital here?

Girdhar Chitlangia: So, Rajiv, there are 3-4 core reason for setting up the manufacturing. We have continuously faced challenges on the geopolitical issues and last 3-4 seasons, some of our imports have been delayed. Number two, the rupee keeps depreciating and Bangladesh purchases being dollar-denominated, over the last 2 years itself, we have lost almost 10% to 12% on that point alone.

Number three, not the most important, but an important reason is MP government is strongly pushing apparel manufacturing, and they are offering huge number of incentives. Number four, we are using this opportunity to drive closer to market and shorter production cycle for us.

Kulin Lalbhai: Girdhar, can I come in here?

Girdhar Chitlangia: Yes, please.

Kulin Lalbhai: Kulin here. So, it's a good question. See, if you look at the group itself and Arvind Limited, its apparel manufacturing is more focused on an export business. In fact, it doesn't service brands in the domestic market. For companies like AFL, we have historically had smaller entrepreneurs setting up units for us as captive capacities.

But what we are now seeing in garment manufacturing is that there is a lot of change that is coming in the way you can do highly automated, nimble, quick turnaround, nimble supply chain design sort of activities. And at the scale AFL has now reached the ability of some of our MSME partners to do something like this has also come to a certain limit. So, whilst it doesn't mean we will move into an asset-intensive strategy on manufacturing, having a couple of strategic assets like this, which allow us to go to our CTM strategy and allow us to, in a very nimble way, control and speed up our supply chain.

Some of those small bets will be made. It will not be very capital intensive. But in our next 4-year strategy, we believe this is going to create a lot of differentiation for the company. And neither external export-oriented players nor the smaller captive players that typically we have worked with would be able to do it. And therefore, this is the first attempt at doing it. The paybacks also are expected to be quite promising.

Rajiv B: So, the extension of this is, are we going to deploy more capital if there is more opportunity on the manufacturing side going forward as well?

Kulin Lalbhai: Not in the next year. I think we would first establish our first proof of concept and looking at the success, then see whether any other category requires because these are very category specific, as Girdhar was saying, shirts is where we had an issue happening with the overall shape of the supply chain. And so, this 30% in-house control will really ease our entire supply chain for this category. If we see the need in another category some other day further down, once we have proven this, we could pick it up, but it is not going to be a major capital outlay towards something like that.

Rajiv B: And, if you can touch upon what is the, let's say, long-term net debt-to-EBITDA or net debt to equity kind of number? Because around this, the

current debt levels and that time the EBITDA was lower is when we had previous -- some mishaps in terms of, let's say, debt to EBITDA numbers basically ballooning. So is there a number which you are comfortable and beyond which -- I mean, that's the guardrail.

Kulin Lalbhai: Girdhar, you want to go ahead? Or should I?

Girdhar Chitlangia: No. You can take it.

Kulin Lalbhai: Since we are going to generate free cash flow this year as you move towards the end of the year, the net debt will be coming down vis-a-vis last year. And the business is OCF-FCF generation is becoming very material.

So, in fact, we will be moving towards having much lower debt in the system -- going forward, our net debt-to-EBITDA ratio is below one, and it will be going to very low levels in the years to come. So, I think this is not a situation where net debt is going to grow in the system, looking at the FCF-OCF plans that the business has in the next 3 years.

Rajiv B: And lastly, on the inventory number, now if I'm not wrong, your inventory is close to INR1,828 crores right now versus INR1,605 crores last year. There is an INR 200 crores jump.

And I see that inventory on, let's say, the Arrow piece itself has gone up by close to INR50-odd crores, while the revenue is up, I think, some 1% Y-o-Y. Is it getting set up for a large end of season or let's say, big discounting because your revenue is not tracking in line with the inventory number on the balance sheet?

Amisha Jain: I think with Arrow, one is that as the festive season comes up, we have sort of now inventory coming in for that part of it. and Arrow, we are continuing to now move and scale towards a balance of online versus wholesale. So some of that inventory that is coming is because of that. Also due to a few issues, for example, with Bangladesh, et cetera, we've had delays. And in order to make sure we secure the season, some of those things have also come in.

The way we should be looking at it we are well underway in terms of driving growth with the brand, and this is a journey for the brand. So you'll continue to see improvement both in revenue and in the overall performance and efficiency of the brand. Just wanted to add that if we look at it from a sequential basis, our GWC is overall consistently flat, and we plan to keep it that way. We are driving a few initiatives.

And hence, over the next 12 to 18 months, we are looking to bring the inventory turns up and we are confident that with that, you'll see a little better inventory days going forward.

Rajiv B: Just one thing. Post the conflict and procurement, which you have done, post that. On the raw mat side, what is the kind of inflation you have seen in terms of your procurement for like-for-like, how has that increased the cost?

Amisha Jain: I think it's been in the zone of about 5% to 6%.

Moderator: Ladies and gentlemen, that was the last question for today. We have reached the end of the question-and-answer session. I now hand the conference over to Mr. Girdhar for closing comments.

Girdhar Chitlangia: Thank you, everybody, 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. Thank you. Have a good day.

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