

Price: 402

Recommendation: Buy

Industry: Speciality Retail

Sector: Consumer Discretionary

Report Date: 03-Apr-2025

Arvind Fashions Limited (AFL) has shown strong performance in Q3, with 7% sales growth and a record EBITDA of INR 174 crores, marking a 71% PAT increase. This success is due to strategic advertising, retail expansion, and product innovation. AFL targets 12%-15% growth by shifting from B2B to B2C channels, now 25% of revenue. The company focuses on premiumization, digital channels, and new growth in kids' segments, while addressing challenges in the footwear sector.

Sales		Profit & Loss		Profitability Matrix	
Current Year	648 Cr	Operating Profit(Year)	46.7 Cr	Operating Profit Margin	7.21 %
Previous Year	741 Cr	Operating Profit(Quarter)	9.71 Cr	EBITDA Margin	11.53 %
Current Quarter	156 Cr	PAT (Year)	42.2 Cr	Net Profit Margin	6.93 %
Previous Quarter	223 Cr	PAT (Quarter)	-2.19 Cr	EPS	3.68
Revenue (QYoY)	156 Cr				
Valuation Matrix		Growth(YoY)		Growth(QoQ)	
Trailing P/E	109	Sales Growth	-12.7 %	Sales Growth	-30.04 %
PEG Ratio	-15.0	PAT Growth	328.86 %	Sales Growth QYoY	0.0 %
EV/EBITDA	49.4	EPS Growth	532.94 %	PAT Growth	-103.57 %
P/B	2.28	Dividend Yield	0.31	PAT Growth QYoY	-55.03 %
Capital Allocation		Holdings		Leverage	
RoE	1.83 %	Promoter	35.2 %	Debt/Equity	0.06
RoA	1.58 %	FII	9.99 %	Debt	138 Cr
RoCE	2.52 %	DII	21.8 %	Market Cap	5341 Cr
RoIC	10.7 %	Public	33.0 %	Enterprise value	5477 Cr
		No of Shares	13.3 Cr	Cash Equivalents	2.04 Cr

source : Company filings

Company's Overview Based on Recent Concall and Performance:

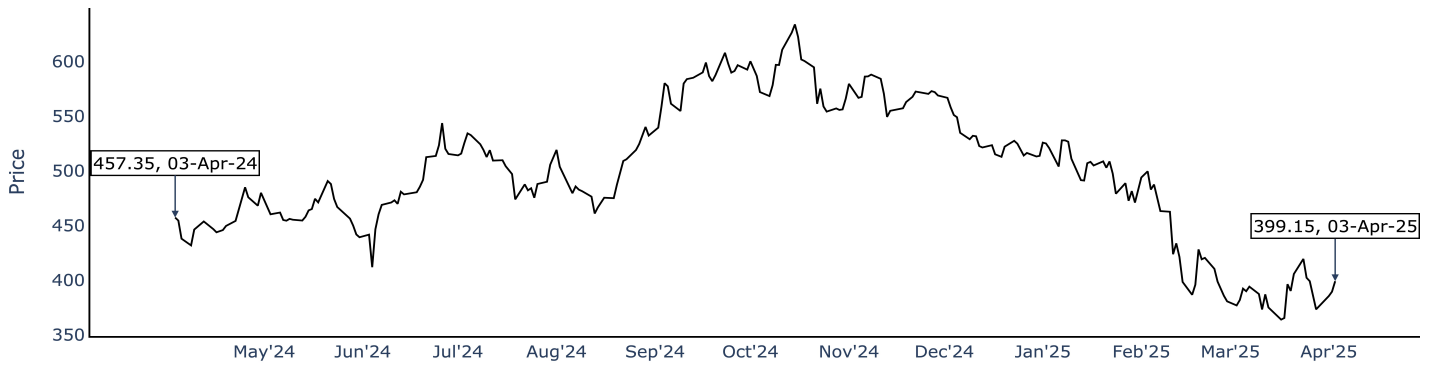
Arvind Fashions Limited (AFL) has demonstrated robust performance in the third quarter, achieving a 7% sales growth and a record EBITDA of INR 174 crores, marking a 71% increase in PAT. This success is attributed to strategic interventions such as enhanced advertising, expansion of retail space, and product innovation, alongside celebrity collaborations that have bolstered retail channel growth by 15%. The company has maintained a strong balance sheet, with a return on capital employed exceeding 19%, and aims to surpass 20% in the medium term. AFL's commitment to profitable growth is evident as it prepares for the Season '25 launch, with optimism for continued momentum.

The company is targeting a 12% to 15% growth, driven by a strategic pivot from B2B to B2C channels, which now constitute 25% of revenue and are expected to grow by 10%. AFL's focus on quality growth has led to the closure of underperforming stores and a reduction in discount-led online growth. This shift has resulted in a healthier revenue mix, with direct channels now accounting for 55% of revenue. The retail channel has seen a 15% growth, supported by like-to-like growth and square foot expansion, while adjacent categories like womenswear and innerwear are experiencing rapid growth.

AFL's future growth strategy includes significant square foot expansion, with a target of 15% CAGR, and a focus on premiumization and adjacent category growth. The company is also leveraging digital channels, with B2C growth expected to compensate for any decline in B2B. The recent tax cuts are anticipated to spur demand, aiding AFL's wholesale business to achieve its underlying growth potential of 8% to 10%. The company is also exploring new growth opportunities in the kids' segment and piloting innovative retail concepts.

While AFL's performance is commendable, there are areas for improvement. The footwear segment has faced challenges due to inventory issues, but recovery is expected as new factories come online. The company is also working to enhance the profitability of brands like Arrow and Flying Machine, which have shown promising growth. AFL's focus on high-quality growth and strategic investments in marketing and brand collaborations are expected to drive future success. However, maintaining momentum in a competitive market will require continued innovation and adaptation to changing consumer preferences.

ARVINDFASN Daily Closing One Year Price Chart



Name	Mar Cap (Rs. Cr.)	P/E	ROE	Sales(G) QoQ	Sales(G) QYoY	PAT(G) QoQ	PAT(G) QYoY
MMTC	8168.95	51.14	9.97%	-83.97%	-65.75%	-82.71%	-93.48%
Honasa Consumer	7690.25	112.82		12.71%	4.36%	244.64%	-25.35%
Arvind Fashions.	5341.42	108.92	1.83%	-30.05%	-0.17%	-103.57%	55.03%
Vishal Mega Mart	50345.75	111.06	8.41%	28.72%	19.53%	152.64%	27.93%
Aegis Logistics	28448.85	49.22	15.13%	-2.48%	-8.88%	-1.36%	-4.52%

Aspect	Commentary
Revenue	The company experienced a decline in annual revenue, with a 12.7% decrease YoY. Quarterly revenue also fell by 30.04% compared to the previous quarter. This indicates challenges in maintaining sales momentum, possibly due to market conditions or competitive pressures. Strategic adjustments may be needed to reverse this trend.
Profit & Loss	Despite a challenging revenue environment, the company achieved a significant PAT growth of 328.86% YoY, indicating effective cost management or one-time gains. However, the quarterly PAT showed a decline, suggesting potential volatility in earnings. Continuous monitoring of cost structures is essential.
Profitability Matrix	The company maintains a healthy operating profit margin of 7.21% and a net profit margin of 6.93%. The EBITDA margin stands at 11.53%, reflecting efficient operational management. However, the high trailing P/E ratio suggests market expectations of future growth, which must be met to sustain investor confidence.
Valuation Matrix	The company's valuation metrics indicate a high trailing P/E of 109, suggesting high market expectations. The negative PEG ratio of -15.0 may reflect concerns about growth sustainability. The EV/EBITDA ratio of 49.4 is elevated, indicating potential overvaluation. Strategic growth initiatives are crucial.
Growth (YoY)	Year-over-year growth metrics show a decline in sales by 12.7%, but a substantial increase in PAT and EPS, suggesting improved profitability despite lower sales. This could be due to cost efficiencies or non-operational income. Sustaining this growth in profitability is key for future success.
Growth (QoQ)	Quarter-over-quarter growth shows a significant decline in sales by 30.04% and a negative PAT growth of 103.57%. This indicates potential short-term challenges in revenue generation and profitability. Addressing these issues through strategic initiatives is necessary to stabilize performance.
Capital Allocation	The company demonstrates prudent capital allocation with a RoE of 1.83% and RoA of 1.58%. The RoCE of 2.52% and RoIC of 10.7% indicate efficient use of capital. Maintaining these metrics while pursuing growth opportunities will be important for long-term shareholder value creation.
Holdings	The company's shareholding pattern shows a balanced distribution with promoters holding 35.2%, FIIs at 9.99%, DIIs at 21.8%, and the public at 33.0%. This diverse ownership structure can provide stability and support strategic initiatives. Monitoring changes in holdings is essential for investor relations.
Leverage	The company maintains a low debt/equity ratio of 0.06, indicating conservative leverage. With a debt of 138 Cr and cash equivalents of 2.04 Cr, the financial position appears stable. This low leverage provides flexibility for future investments and growth opportunities without significant financial risk.

Analyst viewpoint: Arvind Fashions Limited (AFL) has showcased remarkable growth potential, positioning itself strongly for short to mid-term success. Despite a quarterly sales decline, the company registered substantial share gains in profitability, with an impressive PAT growth of 328.86% YoY. This growth is credited to strategic advertising initiatives, retail expansion, and product innovation, propelling AFL into a dominant market position. By transitioning from B2B to more lucrative B2C channels, currently constituting 25% of revenue, AFL is set to target a 12-15% growth trajectory, driving value through premiumization and digital engagement. The robust balance sheet is further buoyed by a low debt/equity ratio of 0.06, ensuring prudent capital allocation and flexibility for strategic investments.

Looking at its valuation metrics, the company's high trailing P/E ratio of 109 places significant positive expectations on future earnings growth. AFL's strategic moves, including market expansion and the introduction of innovative retail concepts, position it well among competitors in the specialty retail sector. However, while the footwear segment faces inventory challenges that need resolution as new production facilities become operational, AFL's forward strategy addresses these with comprehensive market adaptation. This encapsulates AFL's commitment to sustained high-quality growth in a competitive arena, making it a promising investment opportunity.

Please read detailed disclosure on next page.

Explanation of Investment Rating*	
Investment Rating	Expected Return (over 12-month)
BUY	>=15%
SELL	<-10%
NEUTRAL	>-10% to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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