25 May 2026

Company Update | Sector: Retail

Arvind Fashions

BSE SENSEX	S&P CNX
76,489	24,032

Bloomberg	ARVINDFA IN
Equity Shares (m)	134
M.Cap.(INRb)/(USDb)	62.3 / 0.7
52-Week Range (INR)	579 / 366
1, 6, 12 Rel. Per (%)	3/-1/5
12M Avg Val (INR M)	178
Free float (%)	64.9

Financials & Valuations (INR b)

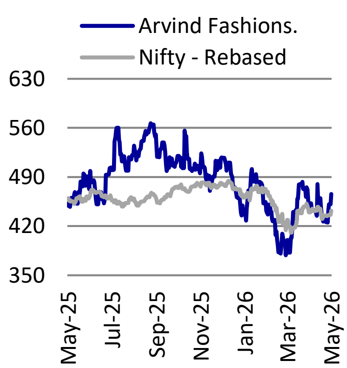
Y/E March	FY26	FY27E	FY28E
Sales	52.7	59.2	66.0
EBITDA	4.4	5.2	6.0
Adj. PAT	1.5	1.7	2.1
EBITDA Margin (%)	8.3	8.7	9.0
Adj. EPS (INR)	11.0	12.4	15.9
EPS Gr. (%)	NM	12.2	29.1
BV/Sh. (INR)	87.3	97.8	112.5
Ratios			
Net D:E	0.4	0.3	0.1
RoE (%)	13.0	16.3	18.1
RoCE (%)	18.5	20.9	22.4
Valuations			
P/E (x)	42.3	37.7	29.2
EV/EBITDA (x)	9.5	8.0	6.8
EV/Sales (X)	1.3	1.1	1.0

Shareholding Pattern (%)

As On	Mar-26	Dec-25	Mar-25
Promoter	35.1	35.1	35.2
DII	24.6	23.2	21.9
FII	12.0	12.1	9.4
Others	28.3	29.6	33.5

FII includes depository receipts

Stock Performance (1-year)



CMP: INR466 | TP:INR620 (+33%) | Buy

D2C-led transformation gathering pace

We hosted the management of Arvind Fashions (AFL) for an NDR. Below are the key takeaways:

- AFL is transitioning into a higher-quality, D2C-led fashion platform under its 'Arvind 3.0' strategy, with improving execution, a stronger D2C mix, and margin-accretive growth.
- Execution is improving meaningfully, led by USPA, which has emerged as a key earnings driver in FY26, delivering ~20% growth and improving profitability supported by better inventory quality, faster sourcing cycles, and operating leverage.
- The portfolio mix is improving, with adjacent categories now at ~25% of revenues and growing faster than core apparel, thereby enhancing retail productivity and reducing cyclicality.
- This mix shift toward a more retail- and D2C-led model is improving capital efficiency, with RoCE expanding (to 18.5% in FY26) despite higher inventory intensity, supported by better product mix, stronger margins, and improving cash conversion.
- We expect AFL to deliver ~12% revenue CAGR and ~17% pre-Ind AS EBITDA CAGR over FY26-28, with margins expanding ~70bp to ~9% by FY28E. PAT is expected to expand at a ~21% CAGR, driven by sustained profitability improvement and continued balance sheet deleveraging.
- Despite improving earnings quality and convergence in fundamentals, the company continues to trade at a ~10% EV/EBITDA and ~30% P/E discount versus Aditya Birla Lifestyle Brands (ABLBL), which we view as difficult to justify given its improving growth profile, capital efficiency, and profitability trajectory.
- **We have a BUY rating with an SOTP-based TP of 620 (unchanged).**

Arvind 3.0: Structural shift toward higher-quality growth

- AFL is entering the next phase of its evolution under the 'Arvind 3.0' strategy, with a sharper focus on improving growth quality, profitability, and capital efficiency.
- Retail and online B2C continue to gain share (56% of FY26 revenue; +300bp YoY), improving control over pricing, assortment, and inventory flow, while reducing reliance on wholesale-led throughput and discount-driven marketplace growth.
- The company is working to reduce sourcing lead times (~6-9 months to ~3) to better align production with real-time demand and improve trend responsiveness. Currently, ~15% of its portfolio is on this agile model, with plans to scale to ~50-60%, aimed at reducing inventory markdown risks.
- Investments are being scaled across forecasting, allocation, and replenishment systems spanning a 1,000+ store network and a large SKU base, strengthening inventory discipline amid a rising D2C mix and increasing merchandising complexity.

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- Overall, the operating model is shifting toward higher retail productivity, improved gross margins, and structurally better inventory efficiency, rather than wholesale-driven scale expansion.

USPA: Emerging as the core earnings driver

- USPA's FY26 performance underscores the improving scalability of AFL's operating model, with revenues likely crossing ~INR25b while sustaining ~20% growth despite a muted discretionary environment.
- Growth is increasingly being driven by a richer category mix, higher D2C contribution, tighter inventory discipline, and improved store productivity.
- Inventory quality has improved meaningfully, with ~85% of the stock below one year of age, supporting lower markdowns, stronger full-price conversion, and higher-quality gross margins.
- FY26 marks a clear profitability inflection, with PAT estimated at ~INR1.1b vs. ~INR110m in FY25, driven by a mix improvement, inventory efficiency, and operating leverage.
- Management continues to highlight further headroom for productivity-led growth, with USPA operating at materially lower retail square footage than global peers at a similar revenue scale.

Improving capital efficiency and balance sheet strength

- AFL's shift toward a more retail- and D2C-led model is improving profitability and capital efficiency, though it has also led to higher inventory intensity.
- Inventory days increased to ~96 days in FY26 vs ~85 days in FY25, driven by higher D2C contribution and pre-positioning ahead of an inflationary environment. This was partly offset by lower receivable days (52 vs 58).
- Despite higher inventory, improving stock freshness, stronger gross margins, and operating leverage are supporting better capital efficiency, with RoCE (adjusted for PVH) improving to ~18.5% in FY26.
- Net debt rose to ~INR5.2b following the Flying Machine stake buyback (vs ~INR2.7b YoY), with management guiding gradual deleveraging supported by internal accruals and improving FCFF.

AFL vs ABLBL: Convergence in fundamentals undermines the valuation gap

- Historically, ABLBL traded at a premium to AFL on superior scale, return ratios, cash generation, and portfolio quality. However, we believe that the gap has narrowed meaningfully, with AFL now broadly comparable across key operating metrics.
- AFL is expected to outgrow ABLBL over FY26-28 (~12% revenue CAGR vs ~9%), while a leaner cost structure supports stronger EBITDA despite lower gross margins. We estimate AFL's pre-Ind AS EBITDA margins to exceed ABLBL's by FY28 (~9% vs ~7.8%).
- Return ratios are converging, with AFL's RoE expected to improve from ~13% in FY26 to ~18.1% by FY28, broadly in line with ABLBL's ~18.3%.
- While ABLBL continues to retain an edge in balance sheet strength and cash conversion, AFL trades at a ~10% EV/EBITDA and ~30% P/E discount. In our view, this discount appears increasingly difficult to justify given the convergence in growth, profitability, and return metrics.

Valuation and view

- AFL is delivering steady operating momentum despite a subdued demand backdrop, supported by consistent execution across retail, online, and brand portfolios. Growth is increasingly driven by direct channels, improving mix, inventory discipline, and margin quality.
- USPA has emerged as the key earnings driver with broad-based traction across channels, while adjacent categories continue to scale profitably, adding a second growth engine without diluting margins and improving overall earnings quality.
- Despite this, the stock has corrected ~25% since Aug'25, with valuation now at ~34x FY27E earnings (vs. ~45x for ABLBL). We see this as an attractive entry point into a franchise with an improving mix, stronger direct channel exposure, and visible adjacency-led growth runway.
- We expect revenue/pre-Ind AS EBITDA CAGR of ~12%/17% over FY26-28, with ~70bp margin expansion to ~9.0% by FY28. PAT is expected to expand at a ~21% CAGR, driven by sustained profitability improvement and continued balance sheet deleveraging.
- **We reiterate BUY with an unchanged SOTP-based TP of 620.**

Exhibit 1: Our SoTP-based TP stands at INR650

Valuation		FY26-28 CAGR		FY25	FY26	FY27	FY28	EV/ EBITDA	FY28E EV
	Ownership	Revenue	EBITDA	Pre-IND AS EBITDA					
Revenues									
Standalone (arrow Wholesale)	100	12%	NA	341	(54)	284	386	16	6,353
Lifestyle (USPA + Arrow)	100	13%	16%	1,277	1,952	2,340	2,658	20	54,109
Flying Machine	100	9%	NA	2	(69)	(50)	166	10	1,729
PVH (Tommy + CK)	50	11%	15%	2,122	2,006	2,223	2,511	18	22,943
CONSOL		**12%**	**20%**	**3,672**	**4,383**	**5,240**	**5,961**	**85,135**	
Net Debt								2,152	
Equity Value								**82,984**	
Per Share								**620**	

Source: MOFSL, Company

Exhibit 2: Valuation after adjusting PVH's stake

Valuation	FY25	FY26	FY27	FY28
EBITDA	4,857	5,633	6,815	7,886
Pre-IND AS EBITDA	1,961	2,680	2,833	3,685
PAT	692	1,238	1,651	2,131
EV/EBITDA	14.9	13.3	11.2	9.5
Pre-IND AS EV/EBITDA	32.9	25.0	23.4	17.5
P/E (after minority)	**90.1**	**50.3**	**37.7**	**29.2**

Source: MOFSL, Company

Exhibit 3: Relative valuation

FY26-28E CAGR (%)	M.Cap	MOFSL			P/E (X)		EV/EBITDA (x)		EV/Sales (X)		RoE (%)	
	INR b	Sales	EBITDA	PAT	FY27E	FY28E	FY27E	FY28E	FY27E	FY28E	FY25	FY28E
VMM	570	19.0	23.4	25.4	56.7	43.2	36.2	27.8	3.0	2.5	12.8	14.3
V-Mart	51	17.2	23.3	26.9	32.6	25.3	18.1	14.1	1.1	1.0	15.1	16.7
Value Retailers		**18.1**	**23.4**	**26.1**	**44.7**	**34.2**	**27.2**	**20.9**	**2.1**	**1.7**	**14.0**	**15.5**
D-Mart	2,687	19.1	18.4	19.0	75.9	63.9	46.7	39.6	2.8	2.3	14.0	14.5
Trent	1,533	20.7	19.3	16.6	76.6	64.8	47.1	38.9	5.2	4.3	26.9	27.4
ABLBL	125	8.9	8.6	24.2	43.5	39.1	16.2	15.0	1.2	1.1	18.9	22.2
Manyavar	101	6.5	8.9	5.8	26.5	24.0	18.8	16.1	5.1	4.4	19.5	19.9
Arvind Fashion	**62**	**12.0**	**25.6**	**33.0**	**35.9**	**28.1**	**16.9**	**13.9**	**0.9**	**0.8**	**18.5**	**19.8**
Traditional retailers		**10.7**	**15.7**	**5.1**	**41.3**	**35.4**	**25.9**	**22.0**	**3.0**	**2.6**	**16.7**	**18.7**
Metro	289	15.3	15.4	13.4	63.3	56.5	39.8	34.7	7.2	6.3	23.1	23.8
Bata	89	4.5	9.1	-4.5	37.5	30.6	18.6	15.6	2.1	1.9	12.7	15.4
Campus	72	12.4	18.7	19.8	42.1	34.8	24.8	20.3	3.4	3.1	17.9	18.2
Relaxo	74	5.8	7.5	11.2	36.7	31.4	20.2	17.4	2.4	2.2	8.7	9.5
Footwear		**9.5**	**12.7**	**10.0**	**44.9**	**38.3**	**25.9**	**22.0**	**3.8**	**3.3**	**15.6**	**16.8**

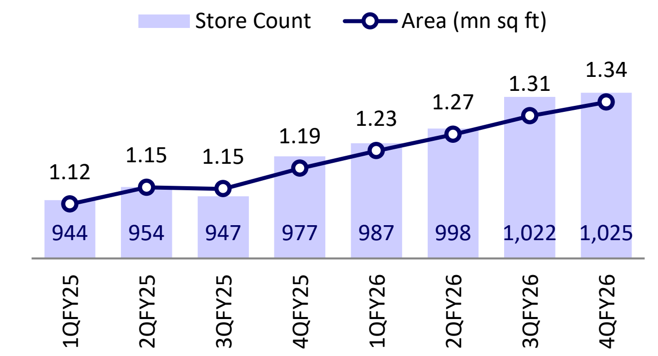
Source: Company, MOFSL

***for footwear we have used FY25-28 CAGR, since FY26 numbers are yet to be out**

Structural shift toward higher-quality growth

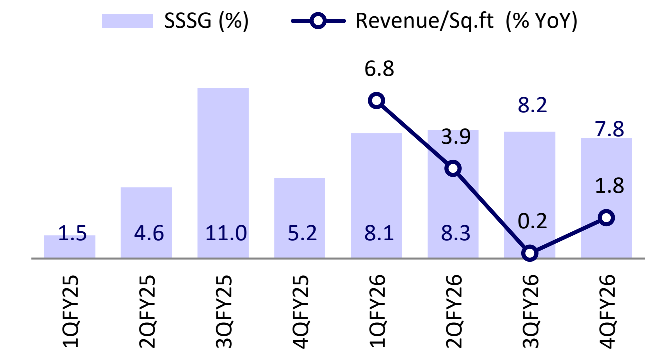
- AFL is transitioning into 'Arvind 3.0', shifting from a wholesale-driven growth model toward a more controlled retail- and D2C-led structure. The prior phase of balance sheet repair and portfolio stabilization has established a stronger operating foundation, enabling the company to now focus on improving revenue quality, gross margin resilience, and capital efficiency.
- The strategic shift is increasingly reflected in channel mix, with retail (up 14% YoY) and online B2C (up 45% YoY) emerging as the primary growth drivers, while wholesale/B2B (up 9% YoY) growth remains comparatively subdued. This transition enhances control over pricing, assortment, inventory management, and discounting, while structurally reducing reliance on lower-visibility, volume-led growth channels. At the same time, the company is pivoting toward larger-format stores and deeper adjacency penetration, with a clear focus on improving per-store productivity rather than expanding footprint alone.
- The company is working to shorten its sourcing cycle from ~9 months to a ~3-month concept-to-shelf model, with current penetration at ~15–20% of the portfolio and a target of ~50-60% over time. This improves trend responsiveness and reduces inventory obsolescence risk, enabling faster sell-through. Currently, ~20% of sales are effectively eroded by markdowns and inventory liquidations, reflecting meaningful pricing leakage in the operating model. As agile sourcing scales and inventory mismatch reduces, this leakage is expected to narrow, directly improving gross margins and translating into stronger profitability.
- This shift is being reinforced through increased investment of ~INR200-250m annually in AI-led tools spanning forecasting, allocation, replenishment, pricing, and personalization across a wide range of SKUs and store network. Overall, AFL's earnings model is gradually shifting from one dependent on wholesale scale toward one driven by retail productivity, gross margin expansion, and better inventory efficiency.

Exhibit 4: Added 12% area during FY26…



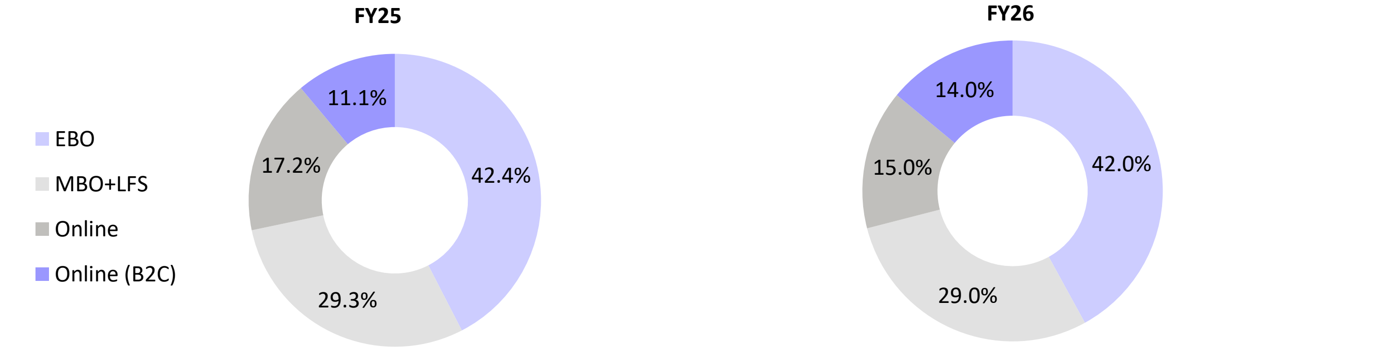
Source: Company, MOFSL

Exhibit 5: …while SSG remained strong



Source: Company, MOFSL

Exhibit 6: Channel mix changes; D2C gaining share



Source: MOFSL, Company

USPA: Emerging as the core earnings driver

- USPA is the clearest evidence of AFL's operating model shift translating into earnings acceleration. Despite a relatively subdued discretionary backdrop, the brand has crossed ~INR25b in revenue in FY26, with ~20% growth alongside a disproportionate expansion in profitability.
- The improvement is increasingly structural, driven by a richer category mix, higher D2C contribution, tighter inventory management, and improving retail productivity. It is no longer reliant on distribution-led expansion or discount-driven sell-through.
- Inventory quality has also improved materially, with ~85% of stock under one year of age, supporting lower markdown intensity and stronger full-price conversion.
- More importantly, FY26 marks an inflection where scale is beginning to translate meaningfully into operating leverage. Within the Lifestyle entity (Holding company of USPA), profitability has improved sharply, with PAT rising to INR1.1b vs. INR110m in FY25, implying a margin expansion to ~4% from ~1% earlier.
- Even after normalizing for Arrow's transition to a standalone structure, profitability has still improved materially to INR630m vs. INR6m in FY25, reinforcing that the earnings step-up is being driven by underlying improvements in the mix, inventory productivity, and fixed-cost absorption rather than accounting effects.
- The growth runway also remains intact, with USPA operating at lower retail square footage density vs. global peers at comparable scale, leaving scope for

productivity-led expansion through larger-format stores and deeper adjacency penetration.

- Overall, USPA is steadily transitioning from AFL's largest brand into its primary earnings driver, with improving visibility on both growth quality and margin scalability.

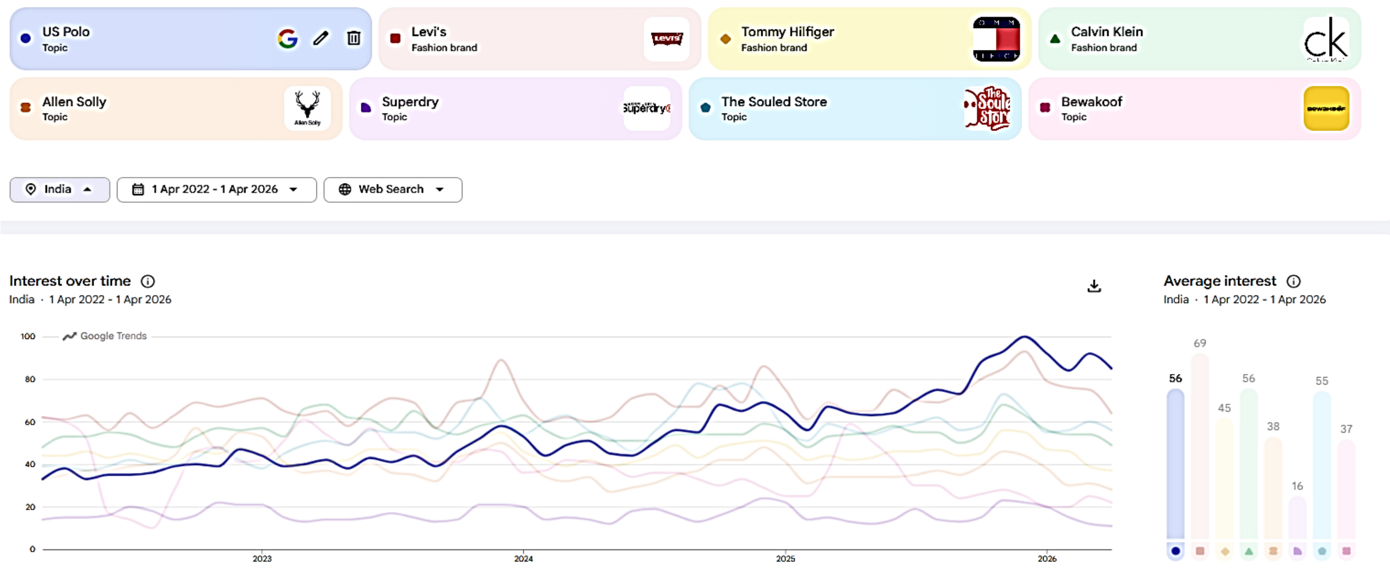
Exhibit 7: Calculated performance of Lifestyle (USPA)

(INR mn)	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	3QFY26	4QFY26	FY23	FY24	FY25	FY26
Consol PAT	402	138	451	476	323	251	566	654	611	1,093	1,128	1,391	2,082
Stand (ex-dividend)	(81)	(70)	210	(49)	(195)	(254)	(49)	(183)	30	(36)	(68)	(103)	(456)
PVH + FM (Minority Interest)	154	126	154	199	207	123	189	105	194	401	565	686	611
Attributable PAT	249	12	297	278	117	128	377	258	474	692	501	692	1,238
Lifestyle (Calc)	176	(44)	(67)	128	105	260	237	336	250	328	4	109	1,083
Arrow+ USPA (Calc)	**95**	**(114)**	**143**	**79**	**(90)**	**5**	**188**	**153**	**280**	**291**	**(64)**	**6**	**627**

Source: Company, MOFSL

According to Google Trends, USPA's search index has scaled significantly over the last few years, marking a clear inflection in brand salience and leadership within the peer set. It has effectively closed the historical gap with Levi's and outpaced peers such as Tommy Hilfiger and Allen Solly. The brand-sustained strength during FY26 aligns with high revenue growth, which indicates structurally improving consumer mindshare rather than cyclical spikes.

Exhibit 8: USPA's relative search dominance signals structural brand equity gains

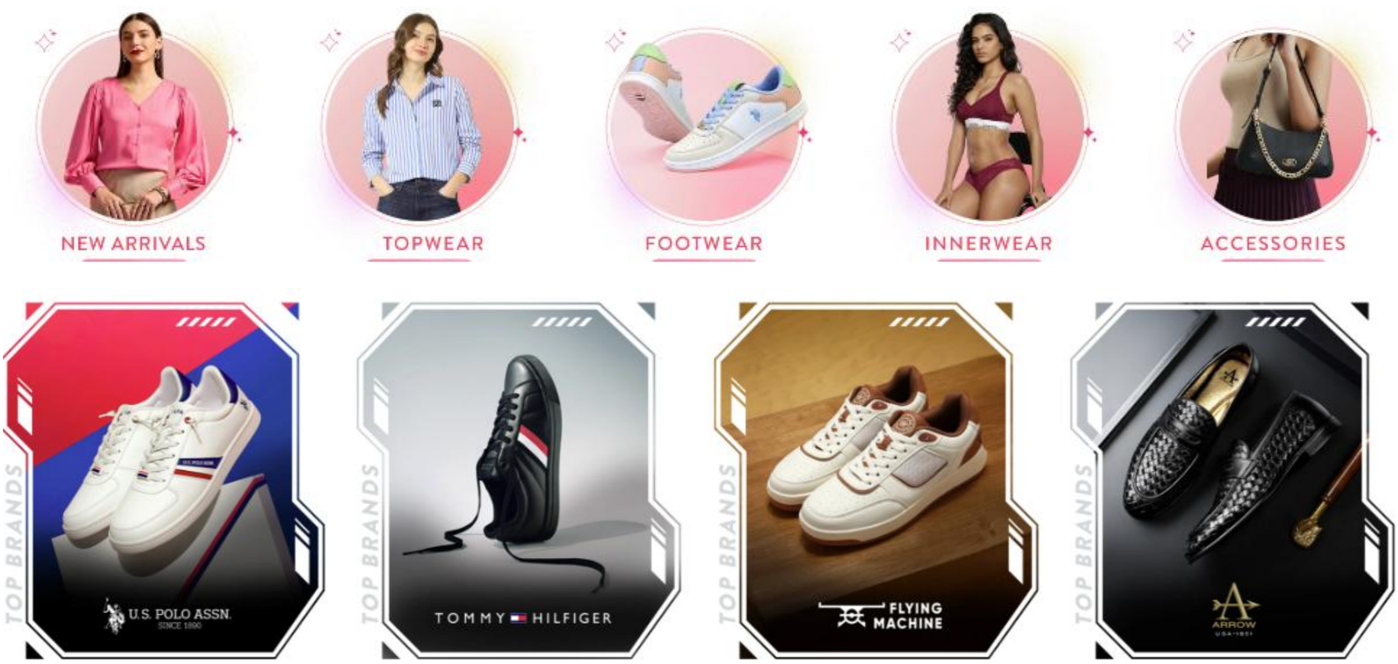


Source: Company, MOFSL

Building a broader lifestyle platform through adjacencies

- Adjacencies are emerging as a second structural growth engine within AFL's portfolio, collectively contributing ~25% to revenue and growing faster than the core apparel business. The shift reflects a gradual broadening beyond menswear, improving wallet share, and diversifying portfolio across the retail network.
- More importantly, adjacencies carry a superior economic profile as they are largely scaled through the existing EBO network. This improves store productivity and inventory throughput without proportionate fixed-cost additions, thereby enhancing operating leverage.
- Footwear remains the largest adjacency at ~INR3.5b in FY26 (3m pairs), growing above 20% post BIS-related disruptions and targeting INR5b in the next few years. This growth is likely to be supported by better availability and expansion of the **Stride portfolio**.
- Innerwear is scaling post distribution restructuring, while womenswear and kidswear continue to build from a smaller base, with kidswear already contributing ~25% of adjacency revenues.
- Overall, adjacencies are increasingly prompting a shift for AFL toward a broader lifestyle platform, with an improving mix, stronger store economics, and higher operating leverage.

Exhibit 9: Adjacencies, led by footwear, are fast evolving as the next leg of growth driver

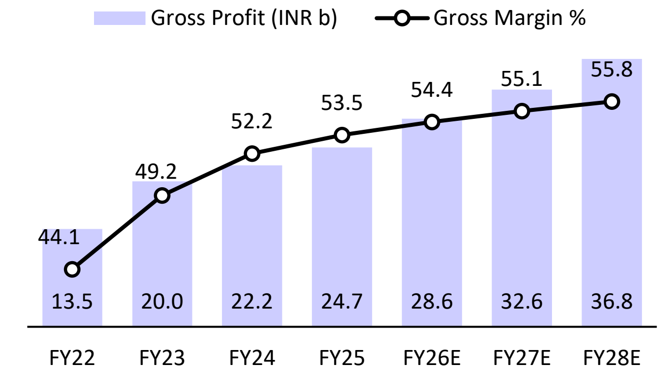


Source: MOFSL, Company

Structural margin expansion funding higher brand investments

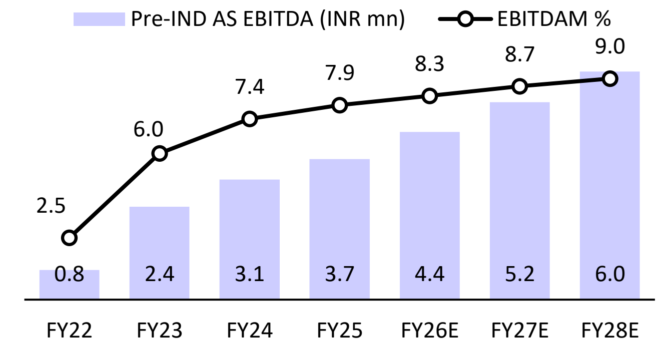
- AFL's FY26 performance suggests that the business is entering a structurally stronger profitability phase, with margin expansion largely driven by gross margin expansion, tighter inventory control, and operating leverage rather than cost rationalization alone.
- Gross margins expanded ~90bp YoY to 54.4% in FY26 despite a muted demand environment, supported by a higher contribution from retail and online B2C channels, which provide better pricing control and lower markdown. In parallel, tighter assortment planning and improved inventory freshness are supporting stronger full-price sell-through across key brands.
- At the same time, healthy like-for-like growth and improving store productivity are driving operating leverage across the retail network, helping offset higher investments behind brands and digital capabilities under the Arvind 3.0 strategy. As a result, Pre-Ind AS EBITDA margins expanded ~40bp YoY to 8.3%.
- Management expects A&P intensity to gradually increase from ~4% to ~7% of sales over the medium term, while continuing to guide for ~50bp annual EBITDA margin expansion. We have a measured view on the extent to which higher brand investments can be offset through gross margin gains and operating leverage.

Exhibit 10: GM to expand by ~145bp over FY26-28



Source: Company, MOFSL

Exhibit 11: Operating margins also expand by 95bp



Source: Company, MOFSL

- Despite the planned increase in brand investments, AFL's current profitability structure suggests that the scope for further margin expansion remains achievable. At ~53.5% gross margins, AFL operates below several premium/lifestyle peers but still delivers a relatively healthy ~7.9% Pre-Ind AS EBITDA margin, supported by a leaner retailing cost structure (~45.5% of sales vs. more than 50% for several peers). This suggests future margin expansion is likely to be driven by mix improvement, stronger full-price sell-through, and operating leverage rather than incremental cost rationalization.

Exhibit 12: AFL's cost structure supports margin expansion despite higher brand investments (FY25 analysis)

INR b	AFL	ABLBL	Reliance Brands	Levis	Blackberrys	Rare Rabbit	Pepe	Snitch	Souled Store
Revenues (INR b)	**46.2**	**78.3**	**23.4**	**22.2**	**9.7**	**8.1**	**5.5**	**5.0**	**4.9**
Gross Profit (INR b)	**24.7**	**45.3**	**11.9**	**11.0**	**5.5**	**5.5**	**2.6**	**2.7**	**2.8**
Reported GM	53.5	57.9	51.0	49.5	56.9	68.0	48.2	53.6	57.3
Commission & Brokerage	13.2	1.2	-	-	12.7	2.9	2.2	9.2	4.9
Rent (Incl of Lease)	5.1	18.0	18.5	1.4	16.0	9.4	5.2	5.0	4.6
Sub-total	**18.3**	**19.1**	**18.5**	**1.4**	**28.7**	**12.3**	**7.4**	**14.3**	**9.5**
Sub-contracting	5.1	5.5	1.4	-	5.3	-	6.2	-	-
Employee	5.8	11.7	15.9	11.6	7.4	16.7	8.1	13.1	11.0
Sub-total	**10.9**	**17.2**	**17.3**	**11.6**	**12.7**	**16.7**	**14.3**	**13.1**	**11.0**
Freight	2.7	1.5	3.4	2.5	2.8	NA	3.3	5.8	5.7
A&P	**3.9**	**3.3**	**2.9**	**6.5**	**6.7**	**NA**	**7.9**	**16.6**	**11.6**
Royalty	4.1	0.2	1.9	6.5	-	NA	5.0	-	-
Others	5.7	9.7	7.9	8.6	6.9	30.7	7.1	4.9	15.2
Cost of Retailing	**45.5**	**51.1**	**51.9**	**37.2**	**57.8**	**59.6**	**45.1**	**54.6**	**53.0**
Pre-IND AS EBITDA (INR b)	**3.7**	**13.0**	**(0.2)**	**2.7**	**(0.1)**	**0.7**	**0.2**	**(0.0)**	**0.2**
% Pre-IND AS Margin (Ex-Commissions)	7.9	16.6	(0.9)	12.3	(0.8)	8.4	3.0	(1.0)	4.3

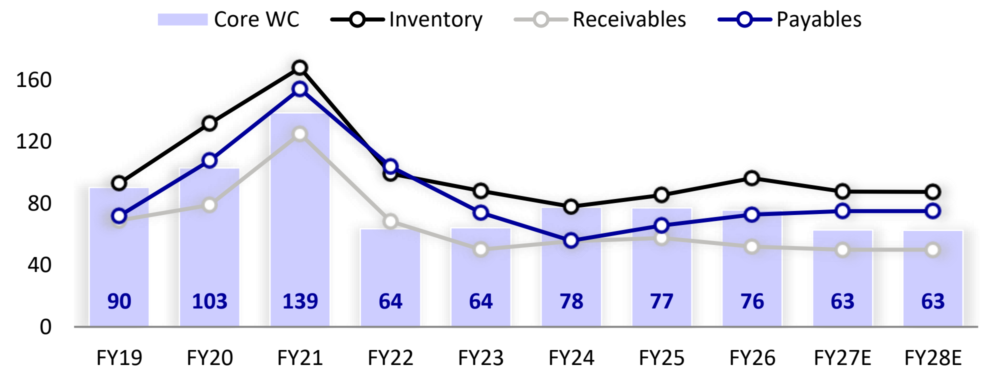
* Note: Cost structures are in % of sales and absolute numbers are in INR b

Source: Company, MOFSL

Improving capital efficiency and balance sheet quality

AFL's transition toward a more retail- and D2C-led model is beginning to improve earnings quality without materially impacting working capital intensity. While inventory requirements are gradually increasing with the rising share of own/D2C channels, this is being structurally offset by lower receivables and tighter inventory management. Inventory quality has improved materially, with ~85% of inventory now below one year of age, supporting faster stock rotation and lower markdown dependency.

Exhibit 13: Inventory freshness and consignment model drive productivity rather than cash cycle

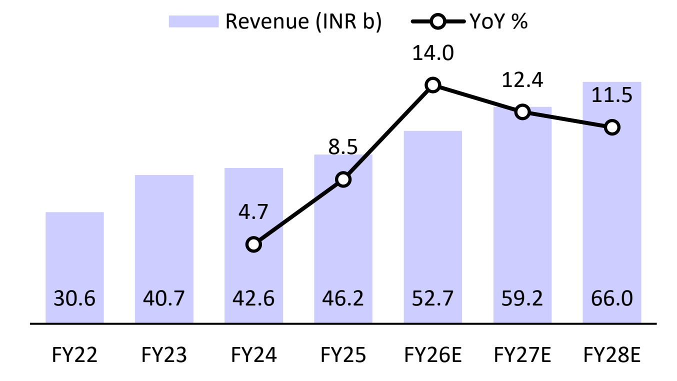


Source: MOFSL, Company

The improvement in inventory productivity, alongside better gross margins and operating leverage, is increasingly translating into stronger capital efficiency. RoCE (adjusted for PVH) improved to ~18.5% in FY26 (up by ~180bp YoY), with management expecting further improvement as the D2C mix rises, markdown intensity declines, and under-earning brands recover profitability.

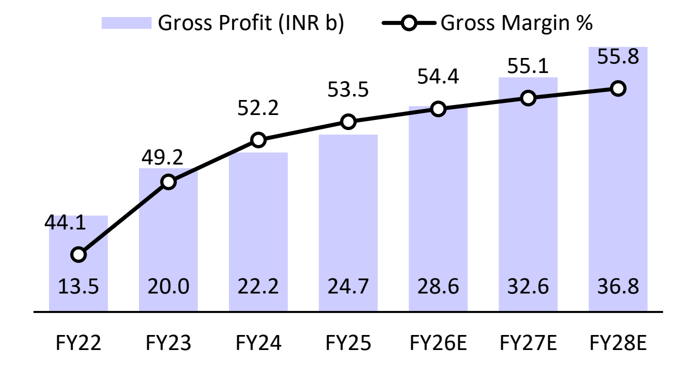
Balance sheet quality is also strengthening despite ongoing investments in larger-format stores and technology capabilities. Although debt increased temporarily following the reacquisition of Flipkart's stake in Flying Machine (Net debt: INR5.2b vs INR2.7b YoY), management continues to target deleveraging over the medium term through internal accruals and improving free cash generation (INR2.6b cumulative FCFF over FY26-28E).

Exhibit 14: Expect revenue CAGR of ~12% over FY26-28



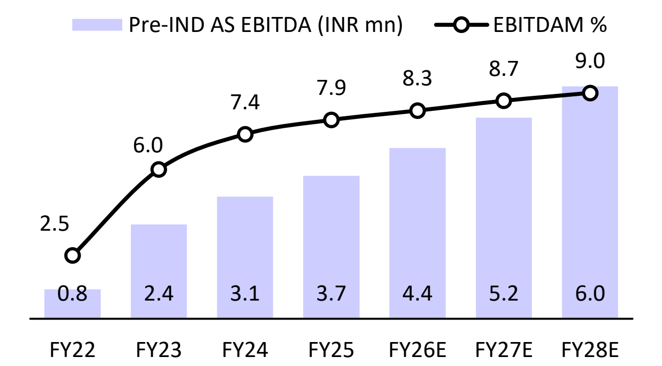
Source: MOFSL, Company

Exhibit 15: GM to expand ~110bp over FY26-28



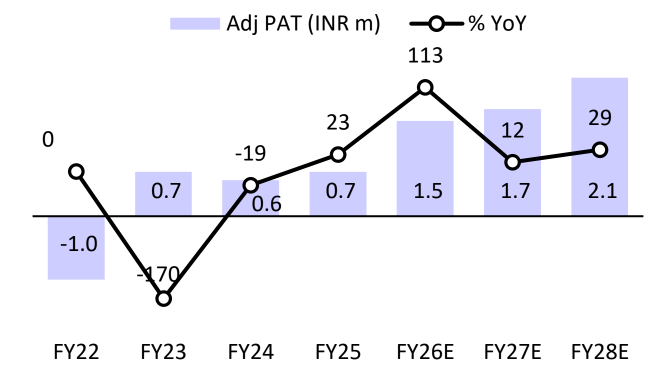
Source: MOFSL, Company

Exhibit 16: EBITDA to post an 18% CAGR



Source: Company, MOFSL

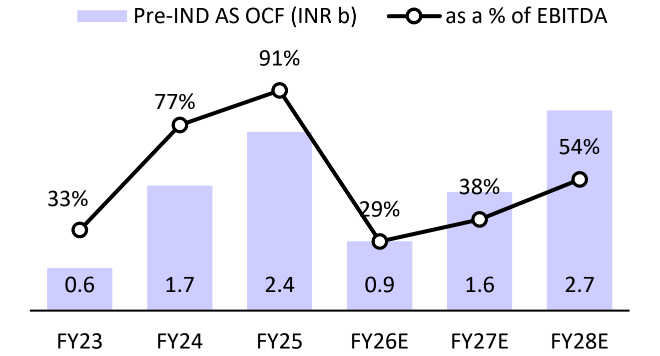
Exhibit 17: Healthy profitability ahead



Source: Company, MOFSL

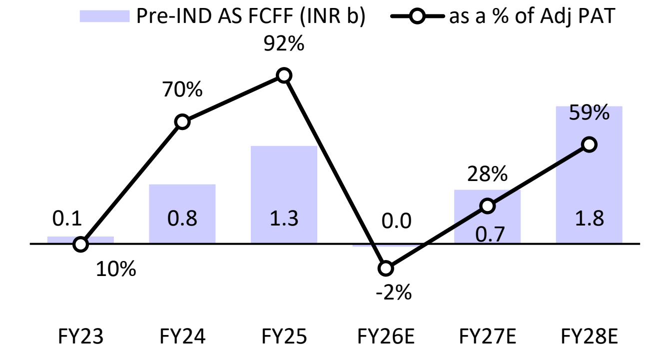
These numbers are adjusted for PVH's share, while FY26 onwards are our estimates

Exhibit 18: Cash conversion to improve



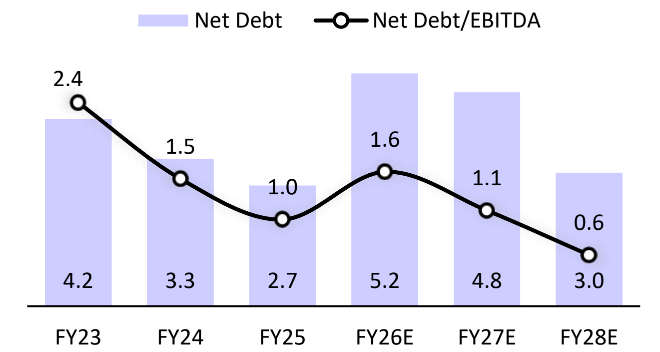
Source: Company, MOFSL

Exhibit 19: Cumulative FCFF of INR2.6b over FY26-28



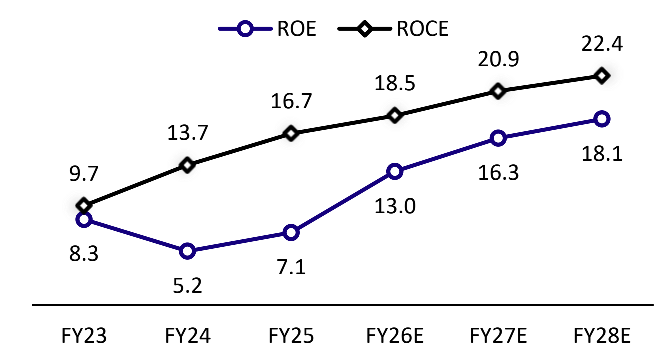
Source: Company, MOFSL

Exhibit 20: Steadily deleveraging balance sheet



Source: Company, MOFSL

Exhibit 21: Healthy improvement in return ratios



Source: Company, MOFSL

AFL vs ABLBL: Convergence in fundamentals undermines the valuation gap

- Historically, ABLBL traded at a premium to AFL, reflecting its larger scale, superior return profile, stronger cash generation, and higher perceived portfolio quality. However, our estimates suggest this gap has narrowed materially. On our numbers, AFL now appears fundamentally comparable to ABLBL and, in certain areas, incrementally stronger.
- Operationally, AFL is expected to outgrow ABLBL, with a revenue CAGR of ~12% over FY26-28, versus ~9% for the latter. While ABLBL continues to deliver higher gross margins, AFL benefits from a structurally leaner operating-cost model, enabling superior EBITDA conversion despite operating on a lower gross margin base. The differential is driven primarily by lower overhead intensity, particularly given ABLBL's manufacturing/factory-led operating structure. We estimate AFL's pre-Ind AS EBITDA margin to exceed ABLBL's by FY28 (~9% vs ~7.8%).
- Return ratios are also converging rapidly. AFL's RoE is projected to improve from ~13% in FY26 to ~18.1% by FY28, nearly matching ABLBL's ~18.3%, implying that ABLBL's historical return advantage is largely eroding.
- ABLBL still retains a clear edge on balance sheet quality and cash conversion, supported by lower working capital intensity, stronger CFO generation, and a near net-cash position by FY28. However, with growth, profitability, and returns increasingly converging, AFL's current 10% (on Pre-IND AS EV/EBITDA) and 30% (on P/E) valuation discount appears difficult to justify. In our view, the market continues to anchor on historical perceptions despite clear evidence of structural improvement in AFL's operating and earnings profile.

Exhibit 22: AFL vs ABLBL: Improving relative fundamentals (1/2)

INR bn	AFL-CONSOL				ABLBL			
	FY25	FY26	FY27	FY28	FY25	FY26	FY27	FY28
Revenues	46,198	52,662	59,199	66,018	78,300	83,958	91,394	99,477
% YoY	8%	14%	12%	12%	1%	7%	9%	9%
Channel Mix								
Wholesale	29%	29%	29%	29%	21%	21%	21%	20%
EBO	42%	42%	42%	43%	65%	65%	64%	64%
Online (B2B+B2C)	28%	29%	29%	29%	15%	15%	15%	15%
Area	1.19	1.34	1.47	1.60	4.32	4.40	4.69	4.95
% YoY	6%	6%	6%	6%	16%	2%	7%	6%
Margin Profile								
Gross margin	53.5%	54.4%	55.1%	55.8%	58.2%	59.5%	59.7%	59.8%
Opex	27.3%	27.9%	28.2%	28.6%	33.2%	34.5%	34.5%	34.7%
Rent (incl of lease)	18.3%	18.1%	18.2%	18.2%	18.0%	17.3%	17.4%	17.3%
Pre-IND AS EBITDA	**2,610**	**3,243**	**4,188**	**4,895**	**5,508**	**6,439**	**7,082**	**7,716**
% Margin	**6.7%**	**7.2%**	**8.3%**	**8.7%**	**7.0%**	**7.7%**	**7.7%**	**7.8%**
Attributable PAT	692	1,238	1,651	2,131	1,595	2,643	2,944	3,101
Margin	1.8%	2.8%	3.3%	3.8%	2.0%	3.1%	3.2%	3.1%

Source: Company, MOFSL

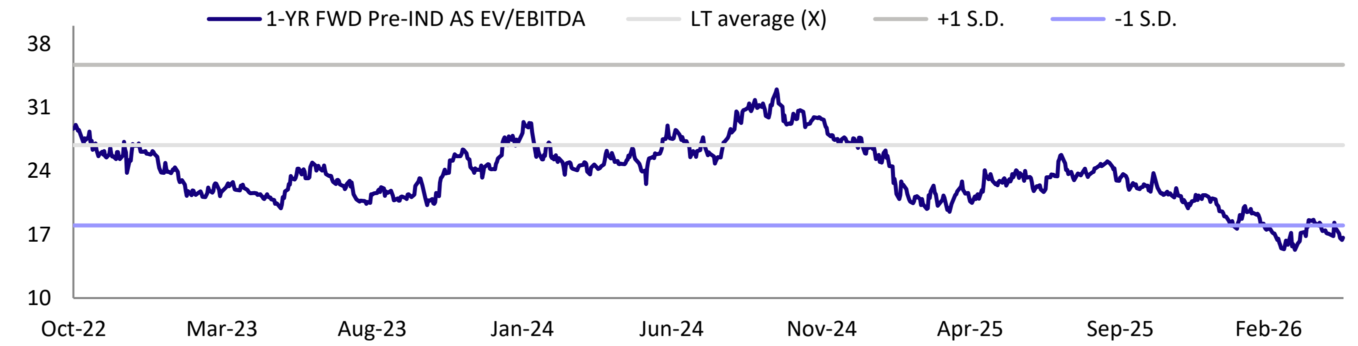
Exhibit 23: AFL vs ABLBL: Improving relative fundamentals (2/2)

INR bn	AFL-CONSOL				ABLBL			
	FY25	FY26	FY27	FY28	FY25	FY26	FY27	FY28
Inventory	85	96	88	88	98	102	98	97
Receivable	58	52	50	50	62	52	50	50
Payable	66	73	75	75	99	99	95	95
Core WC days	**77**	**76**	**63**	**63**	**61**	**55**	**53**	**52**
Core WC	**9,768**	**10,904**	**10,169**	**11,305**	**13,096**	**12,584**	**13,271**	**14,172**
as a % of sales	21%	21%	17%	17%	17%	15%	15%	14%
Net Debt	2,717	5,232	4,812	3,009	5,363	4,808	2,404	-26
Net Debt/EBITDA	0.88	1.37	0.98	0.53	0.97	0.75	0.34	0.00
CFO	**2,379**	**929**	**1,582**	**2,660**	**3,670**	**3,812**	**5,057**	**4,994**
as a% of EBITDA	77%	24%	32%	47%	67%	59%	71%	65%
Capex	1,096	972	871	858	-2,435	-3,225	-3,000	-2,750
FCFF	**1,283**	**-43**	**711**	**1,802**	**1,235**	**586**	**2,057**	**2,244**
as a% of PAT	156%	-3%	37%	72%	77%	22%	70%	72%
RoE	7.1	13.0	16.3	18.1	18.9	18.3	17.0	16.5
RoCE	16.7	18.5	20.9	22.4	20.6	20.9	28.1	29.4

Source: Company, MOFSL

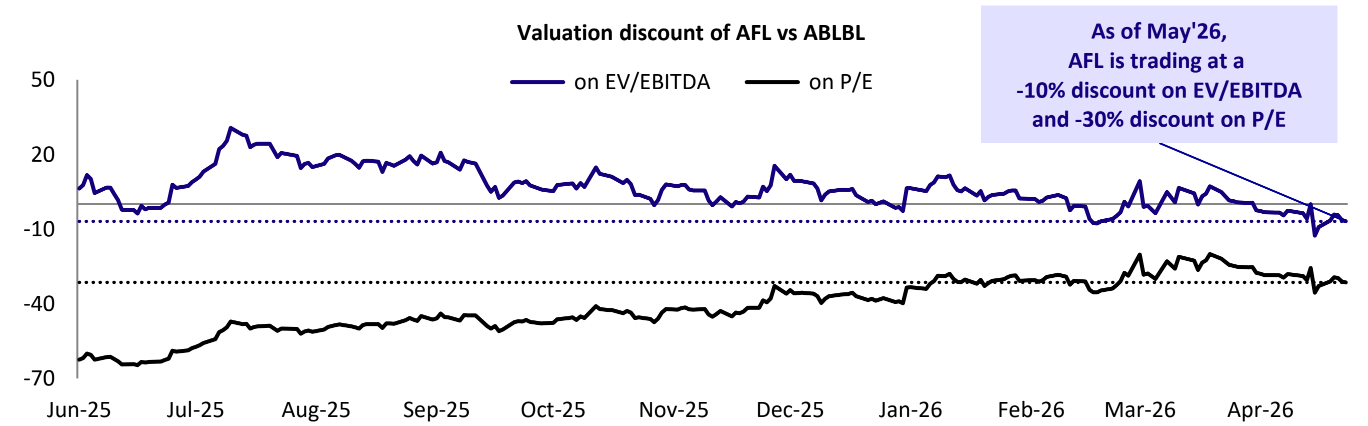
CFO/FCFF and return ratios are on proportionate basis for AFL (ex-PVH share)

Exhibit 24: At CMP, AFL trades at ~16.7x one-year forward attributable Pre-IND AS EV/EBITDA, (-)1 S.D. below its historical range



Source: MOFSL, Company

Exhibit 25: AFL now trades at a ~10% discount to ABLBL on one-year forward attributable Pre-Ind AS EV/EBITDA, with the relative valuation gap turning negative



Source: MOFSL, Company

Financials and valuations

Consolidated - Income Statement

Y/E March	FY21	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E
Total Income from Operations	**19,119**	**30,560**	**40,695**	**42,591**	**46,198**	**52,662**	**59,199**	**66,018**
Change (%)	-47.1	59.8	33.2	4.7	8.5	14.0	12.4	11.5
Raw Materials	11,182	17,098	20,667	20,371	21,495	24,025	26,552	29,168
Gross Profit	**7,937**	**13,462**	**20,028**	**22,220**	**24,703**	**28,637**	**32,646**	**36,849**
Gross Margin (%)	41.5	44.1	49.2	52.2	53.5	54.4	55.1	55.8
Employees Cost	2,047	2,368	2,440	2,601	2,687	3,218	3,552	3,895
Other Expenses	5,906	9,293	13,358	14,514	15,997	18,374	20,834	23,496
Total Expenditure	**19,135**	**28,759**	**36,465**	**37,486**	**40,178**	**45,616**	**50,939**	**56,559**
% of Sales	100.1	94.1	89.6	88.0	87.0	86.6	86.0	85.7
EBITDA	**-16**	**1,802**	**4,230**	**5,105**	**6,020**	**7,046**	**8,260**	**9,458**
Margin (%)	-0.1	5.9	10.4	12.0	13.0	13.4	14.0	14.3
Pre-IND AS EBITDA	**-611**	**773**	**2,430**	**3,143**	**3,672**	**4,383**	**5,158**	**5,961**
Margin (%)	-3.2	2.5	6.0	7.4	7.9	8.3	8.7	9.0
Depreciation	2,378	2,330	2,031	2,301	2,557	2,897	3,414	3,867
EBIT	**-2,394**	**-528**	**2,199**	**2,805**	**3,463**	**4,149**	**4,846**	**5,592**
Int. and Finance Charges	1,803	1,239	1,210	1,442	1,558	1,705	1,891	1,893
Other Income	1,087	669	503	337	346	408	396	417
PBT bef. EO Exp.	**-3,110**	**-1,099**	**1,493**	**1,700**	**2,251**	**2,852**	**3,350**	**4,115**
EO Items/Share of Associates	-452	0	0	-62	-1,047	-233	-	-
PBT after EO Exp.	**-3,562**	**-1,099**	**1,493**	**1,638**	**1,204**	**2,619**	**3,350**	**4,115**
Total Tax	419	-58	401	573	860	770	844	1,037
Tax Rate (%)	-11.8	5.3	26.8	34.9	71.4	29.4	25.2	25.2
Reported PAT	**-3,980**	**-1,041**	**1,093**	**1,066**	**344**	**1,849**	**2,506**	**3,078**
PAT (after Minority)	**-4,399**	**-983**	**692**	**563**	**692**	**1,471**	**1,651**	**2,131**
Change (%)	55.7	-77.7	-170.4	-18.6	22.9	112.7	12.2	29.1
Margin (%)	-23.0	-3.2	1.7	1.3	1.5	2.8	2.8	3.2

Consolidated – Balance sheet

Y/E March	FY21	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E
Equity Share Capital	424	530	531	532	533	535	535	535
Minority Interest	694	1,002	1,826	1,891	2,074	2,169	2,160	2,305
Total Reserves	4,796	6,973	8,565	9,501	9,038	8,902	10,305	12,116
Net Worth	**5,914**	**8,504**	**10,922**	**11,924**	**11,645**	**11,605**	**13,000**	**14,955**
Total Loans	9,034	4,607	5,569	4,463	3,896	5,313	4,573	4,626
Lease Liability	8,119	4,560	6,673	6,818	7,672	8,045	9,796	10,350
Other long-term Liabilities	2,304	2,535	1,376	1,480	1,417	1,352	1,352	1,352
Capital Employed	**25,370**	**20,207**	**24,540**	**24,684**	**24,629**	**26,316**	**28,721**	**31,283**
Gross Block	8,751	5,160	5,354	5,154	5,941	7,217	8,217	9,217
Less: Accum. Deprn.	**5,646**	**2,914**	**3,191**	**2,800**	**3,149**	**4,063**	**5,144**	**6,320**
Net Fixed Assets	**3,105**	**2,245**	**2,163**	**2,353**	**2,791**	**3,154**	**3,073**	**2,896**
Right to use Assets	**6,645**	**3,879**	**6,080**	**6,252**	**6,920**	**7,231**	**7,790**	**7,047**
Capital WIP	4	0	21	39	11	39	39	39
Total Investments	**6,699**	**6,145**	**5,686**	**5,553**	**4,076**	**3,957**	**3,957**	**3,957**
Curr. Assets, Loans&Adv.	**20,559**	**20,360**	**22,771**	**21,872**	**24,293**	**27,778**	**28,459**	**33,623**
Inventory	8,796	8,308	9,819	9,094	10,801	13,896	14,224	15,827
Account Receivables	6,553	5,717	5,595	6,468	7,294	7,516	8,109	9,044
Cash and Bank Balance	189	1,050	2,003	1,680	1,647	639	446	2,417
Loans and Advances	5,022	5,285	5,353	4,630	4,551	5,727	5,681	6,335
Curr. Liability & Prov.	**11,642**	**12,422**	**12,180**	**11,385**	**13,462**	**15,842**	**14,597**	**16,278**
Account Payables	9,598	10,479	10,195	9,363	11,720	13,871	12,164	13,565
Other Current Liabilities	2,044	1,943	1,985	2,022	1,743	1,971	2,433	2,713
Net Current Assets	**8,917**	**7,937**	**10,591**	**10,487**	**10,830**	**11,936**	**13,863**	**17,344**
Appl. of Funds	**25,370**	**20,207**	**24,540**	**24,684**	**24,629**	**26,316**	**28,721**	**31,283**

Financials and valuations

Ratios

Y/E March	FY21	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E
Basic (INR)								
EPS	**-32.9**	**-7.4**	**5.2**	**3.8**	**5.2**	**11.0**	**12.4**	**15.9**
Cash EPS	-19.0	10.2	20.5	21.1	24.4	32.8	38.1	45.1
BV/Share	55.8	64.2	82.2	89.7	87.6	87.3	97.8	112.5
DPS	0.0	0.0	1.0	1.3	1.6	1.6	1.9	2.4
Payout (%)	0.0	0.0	12.2	15.6	62.0	11.5	9.9	10.4
Valuation (x)								
P/E	NM	NM	57.5	97.4	96.1	42.3	37.7	29.2
Cash P/E	NM	21.4	14.5	17.3	20.4	14.2	12.2	10.3
P/BV	2.2	3.4	3.6	4.1	5.7	5.3	4.8	4.1
EV/Sales	1.1	1.1	1.1	1.2	1.5	1.3	1.1	1.0
EV/EBITDA	NM	18.0	10.2	10.1	11.4	9.5	8.0	6.8
Dividend Yield (%)	0.0	0.0	0.3	0.3	0.3	0.3	0.4	0.5
FCF per share	26.8	40.0	25.1	30.1	31.1	22.2	32.1	44.2
Return Ratios (%)								
RoE	-68.8	-13.6	7.1	4.4	5.9	13.0	16.3	18.1
RoCE	-13.9	-0.7	13.3	16.7	17.8	18.5	20.9	22.4
RoIC	-7.3	-0.5	8.7	10.1	11.0	10.8	13.1	15.2
Working Capital Ratios								
Fixed Asset Turnover (x)	2.2	5.9	7.6	8.3	7.8	7.3	7.2	7.2
Asset Turnover (x)	0.8	1.5	1.7	1.7	1.9	2.0	2.1	2.1
Inventory (Days)	168	99	88	78	85	96	88	88
Debtor (Days)	125	68	50	55	58	52	50	50
Creditor (Days)	183	125	91	80	93	96	75	75
Leverage Ratio (x)								
Current Ratio	1.8	1.6	1.9	1.9	1.8	1.8	1.9	2.1
Interest Cover Ratio	-1.3	-0.4	1.8	1.9	2.2	2.4	2.6	3.0
Net Debt/Equity	1.5	0.4	0.3	0.2	0.2	0.4	0.3	0.1

Consolidated - Cash Flow Statement

Y/E March	FY21	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E
OP/(Loss) before Tax	(3,562)	(1,099)	1,493	1,638	2,251	2,619	3,350	4,115
Depreciation	3,341	2,609	2,387	2,492	2,557	2,897	3,414	3,867
Interest & Finance Charges	2,357	1,369	1,384	1,519	1,558	1,705	1,891	1,893
Direct Taxes Paid	112	(118)	(433)	(627)	(433)	(433)	(844)	(1,037)
(Inc)/Dec in WC	1,078	2,435	(955)	(31)	(613)	(2,588)	(2,120)	(1,510)
CF from Operations	**3,326**	**5,197**	**3,876**	**4,992**	**5,320**	**4,199**	**5,691**	**7,328**
Others	(24)	(70)	(157)	(163)	(215)	(147)	(396)	(417)
CF from Operating incl EO	**3,302**	**5,127**	**3,719**	**4,829**	**5,105**	**4,053**	**5,296**	**6,911**
(Inc)/Dec in FA	(464)	166	(380)	(823)	(958)	(1,090)	(1,000)	(1,000)
Free Cash Flow	**2,838**	**5,293**	**3,339**	**4,006**	**4,147**	**2,963**	**4,296**	**5,911**
(Pur)/Sale of Investments	24	70	140	1,102	-	-	396	417
Others	-48	-321	-65	18	160	99	-	-
CF from Investments	**-488**	**-85**	**-305**	**297**	**-798**	**-991**	**-604**	**-583**
Issue of Shares	4,993	4,948	54	23	53	98	-	-
Inc/(Dec) in Debt	-2,990	-4,413	959	-1,316	-761	1,418	-740	53
Interest Paid	-3,211	-1,371	-1,438	-1,417	-1,566	-1,697	-1,891	-1,893
Dividend Paid	0	0	0	-133	-167	-214	-248	-320
Others	2,336	-1,256	-1,552	-2,070	-2,119	-3,666	-2,006	-2,197
CF from Fin. Activity	**1,128**	**-2,092**	**-1,977**	**-4,912**	**-4,560**	**-4,060**	**-4,885**	**-4,356**
Inc/Dec of Cash	**3,942**	**2,950**	**1,438**	**214**	**-253**	**-997**	**-194**	**1,972**

NOTES

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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