Arvind Limited

July 03, 2018

Ratings

Instruments	**Amount (Rs. crore)**	**Ratings[1]**	**Rating Action**
Commercial Paper (CP) (Standalone)	600.00 *(enhanced from Rs.400.00 crore)*	**CARE A1+ (A One Plus)**	Reaffirmed
CP (carved out)	100.00 *(reduced from Rs.300.00 crore)*	**CARE A1+ (A One Plus)**	Reaffirmed
Total CP	**700.00 (Rupees Seven hundred crore only)**		

Details of instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE Ratings had already taken cognizance of the decision of the Board of Directors of Arvind Limited (Arvind) in November 2017 to de-merge its branded apparel and engineering undertakings currently housed under its different subsidiaries into separately listed companies on the stock exchanges, namely Arvind Fashions Limited (AFL) and The Anup Engineering Limited (Anup). While the listing of the two subsidiaries is expected to enhance the financial flexibility of Arvind group it would simultaneously result in reduction in revenue diversification of Arvind as it would no longer benefit from the future growth prospects of the brand & retail business of AFL. However, the management of Arvind has articulated that the various corporate guarantees extended by Arvind for the loans/instruments raised by AFL and AFL's subsidiary Arvind Lifestyle Brands Ltd (ALBL) shall remain in place unless they are withdrawn through mutual consent of all concerned parties. The proposed demerger is subject to receipt of various statutory and regulatory approvals and according to Arvind's management it is likely to fructify by H1FY19.

The rating of Arvind continues to derive strength from the vast experience of its promoters in textile business coupled with its long-standing operational track record as an integrated textile manufacturer having presence across the textile value chain and gradual diversification in its revenue mix with increasing contribution of shirting fabric, garmenting and technical textile in its sales thereby reducing its dependence on the cyclical denim business. The rating also factors increase in its scale of operations during FY18 (refers to the period from April 01 to March 31) with stable cash accruals, moderate leverage and debt coverage indicators; albeit with moderation in its operating profitability during the year. Further, the rating takes note of the management's plan to raise long-term debt in order to shore up its working capital requirements.

The rating of Arvind, however, continues to remain constrained on account of the increasing working capital intensity of its operations, susceptibility of its profitability to inherent volatility associated with the cotton prices and foreign exchange fluctuation as witnessed during FY18, losses in e-commerce segment considering its nascent stage and its presence in the cyclical and competitive textile/apparel industry.

Post successful completion of the proposed demerger, Arvind's ability to maintain growth momentum in its total operating income while efficiently managing raw material price volatility and working capital requirement along with improvement in its profitability, leverage and debt coverage indicators would be the key rating sensitivities. Completion of long-term debt raising plans to shore up its working capital requirement will also be a key rating monitorable.

Detailed description of the key rating drivers

Key Rating Strengths

Wide experience of the promoters in textile industry along with competent management

Arvind, the flagship company of Ahmedabad based Lalbhai group, is currently led by next generation entrepreneurs of the Lalbhai family under the leadership of Mr Sanjay Lalbhai. Mr Sanjay Lalbhai, aged 67 years, is the *Chairman and Managing Director* of Arvind and looks after the overall operations of the company and has a total work experience of nearly 35 years. Further, his sons, Mr. Punit Sanjay Lalbhai and Mr. Kulin Sanjay Lalbhai, have also been inducted on the Board as Executive Directors. Mr. Jayesh Shah, *Whole-time-Director and CFO*, is a Chartered Accountant with total work experience of over two decades and looks after the finance function. Further, Arvind's Board comprises of eminent industry experts and professionals. The management team of Arvind also consists of experienced professionals who have guided the company successfully through various economic cycles.

Diversified revenue stream and product portfolio along with significant vertical integration

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Arvind has significantly diversified its revenue stream across different segments over the past few years. Further, Arvind's textile business operations are vertically integrated across the complete value chain from fabric to garments to branded apparel to retail. This integrated setup gives Arvind operational flexibility and ability to rationalize costs by managing dependence on outsourced vendors. During FY18, on consolidated basis, textiles division contributed 56% of Arvind's TOI (FY17: 62% of the TOI), whereas brands & retail division contributed 35% of TOI (FY17: 31% of the TOI). Furthermore, Arvind has also increased its focus towards garmenting and technical textile during FY18.

Continued growth in its scale of operations along with steady cash accruals, moderate leverage and debt coverage indicators; albeit with moderation in its operating profitability during FY18

The total operating income (TOI) of Arvind on a consolidated basis registered a y-o-y growth of 17.42% during FY18 led by strong growth in the textile segment and brands & retails segment. The textile segment and brands & retails registered a healthy y-o-y growth of 10% and 17% respectively during FY18. Despite increase in the scale of operations, the PBILDT margin of the company moderated to 9.44% during FY18 as against 11.07% during FY17 on account of higher cotton prices, appreciation of rupee against USD and reduction in the duty drawback rates post implementation of GST. However, reduction in its interest cost led to stable cash accruals of Rs.625 crore during FY18. Further, the capital structure and debt coverage indicators of the company remained moderate during FY18. Going forward, Arvind plans to increase its focus towards increasing captive consumption of own fabric, foray in to contract manufacturing for large sportswear segment and scale up the operations of advanced material (mainly technical textile) segment.

Favorable prospects for Indian apparel and garment segment of the textile industry

Indian Apparel (Garment) is the largest segment of the Indian Textile and Clothing Industry (IT&C); accounts 60-65% of the total Industry. Further, it is one of the largest sources of foreign exchange flow into the country. Moreover, the share of India is nearly 3%-4% in the total apparel exports of the world as against 38% share of China as on 2016. With increasing labour cost in China, the demand is expected to shift to Bangladesh, India, Vietnam, etc. Further, various policy initiatives by State Government such as payroll assistance of up to 50% for employees, interest subsidy, special concession in power tariff, etc are expected to provide boost to garmenting sector. Arvind is also setting up garment manufacturing unit at Ethiopia in light of tax benefits on exports from there to USA.

Key Rating Weaknesses

Working capital intensive operations

Operations of Arvind are working capital intensive marked by operating cycle of around 85 days during FY18 (FY17: 80 days). The gross operating cycle (average collection plus inventory period) of Arvind increased to 150 days during FY18 from 138 days during FY17 mainly on account of the increase in trade receivables largely from brands & retail segment and effluent treatment segment (housed under different subsidiary). The incremental working capital requirement was largely funded through increase in the creditors and reliance on external working capital bank borrowing. The working capital intensity further increased during FY18 post implementation of GST on account of the delay in the refund of input tax credit. The average utilization of the fund based working capital limits remained at 90% for the past twelve months ended May 2018. Arvind's management has articulated to raise long-term loans/non-convertible debentures (NCDs) of at least Rs. 200 crore by September 2018 to shore up the working capital requirements which is crucial from credit perspective. Ability of the company to efficiently manage its working capital requirement going forward shall remain key rating sensitivity.

Vulnerability of profitability to volatility in cotton prices and foreign exchange fluctuation

Cotton and cotton yarn are the key raw materials for Arvind. Being agriculture based input; the operations of Arvind are vulnerable to its inherent risks associated with agri-based inputs prices.

Arvind also earns nearly 25%-30% of its revenue from the export market whereas import on the other side is negligible. Hence, Arvind is a net exporter and is exposed to adverse fluctuation in foreign currency exchange rates.

Highly competitive and cyclical retail apparel and textile industry

Textile industry is highly competitive and cyclical in nature having few large players and several unorganized regional players. Though Indian apparel industry provides strong opportunity to grow, it is highly competitive marked by presence of some of the large corporate groups. Further, extent of competition has increased due to deep discounting offered by online rivals like Flipkart, Amazon etc. and entry of large global apparel chain in domestic market through joint venture with domestic companies Moreover, growth of the Indian apparel sector is closely linked to the growth of the economy and hence any downturn in economic environment may also slow down the demand for branded apparel in light of discretionary nature of spending on these products.

Analytical approach: 'Consolidated' till date of demerger and subsequently it shall change to 'Combined' post demerger so as to factor the support that Arvind is contractually bound to extend towards the guaranteed/with recourse nature of debt in the brands & retail business of AFL and ALBL unless withdrawn/released with mutual consent of all concerned parties.

Applicable Criteria
[Criteria on assigning Outlook to Credit Rating](#)
[CARE's Policy on Default Recognition](#)
[Criteria for Short Term Instruments](#)
[Financial Ratios-Non Financial Sectors](#)
[Rating Methodology Manufacturing Companies](#)

About the company
Arvind, the flagship company of Ahmedabad-based Lalbhai group which was founded by the Late Mr Kasturbhai Lalbhai in 1931, is a diversified conglomerate having presence in textiles, apparel retailing, engineering and real estate businesses amongst others. Arvind is one of India's leading vertically integrated textile companies with presence of more than eight decades in the industry. Arvind is amongst the largest denim and woven fabric manufacturers with an installed capacity of 108 million meters per annum (MMPA) and 132 MMPA respectively as on March 31, 2018. Apart from denim and woven fabrics, Arvind also manufactures a range of cotton shirting, knits and bottom weights (Khakis) fabrics. Recently Arvind has also forayed in to technical textiles on its own and in joint venture with leading global players.
Arvind, through its subsidiary Arvind Fashions Limited (AFL) which is planned to be shortly demerged from it, is also engaged in wholesaling and retailing of various well-known international and owned apparel brands in India which are categorized in to power brands like Arrow, US Polo, Tommy Hilfiger and Flying Machine, growth brands like Aeropostale, Nautica, Gant, Izod, Ed Hardy, Elle, Hanes, TCP and Specialty retails like GAP, Sephora (in beauty and cosmetics segment. Moreover, Arvind also operates apparel value retail stores under 'Unlimited' offering various private brands and international licensed brands. Other business segments of Arvind include engineering undertaking i.e.- designing and fabrication of process equipment housed under its subsidiary The Anup Engineering Limited (Anup, rated CARE A+; Stable) and assembling and installation of waste water treatment plants housed under Arvind Envisol Limited (AEL).
As per company's announcement on November 8, 2017, Arvind has proposed to undertake a demerger of its business undertakings whereby AFL and Anup would no longer remain its subsidiaries once the scheme of demerger is approved. However, the debt in AFL and its subsidiary ALBL shall continue to be 'with recourse' to Arvind as per the current plan articulated by its management.

Brief Financials (Rs. Crore)	FY17 (A)	FY18 (Abridged)
Total operating income (TOI)	9,273	10,889
PBILDT	1,026	1,028
PAT	385	316
Overall Gearing (times)	0.91	0.92
Interest coverage (times)	3.29	3.99

A: Audited;

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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Annexure-I: Details of Facilities/Instruments

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Commercial Paper-Commercial Paper (Standalone)	-	-	7-364 days	600.00	CARE A1+
Commercial Paper-Commercial Paper (Carved out)	-	-	7-364 days	100.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Term Loan-Long Term	LT	535.49	CARE AA; Stable	-	1)CARE AA; Stable (15-Nov-17) 2)CARE AA; Stable (28-Sep-17)	1)CARE AA; Stable (02-Mar-17) 2)CARE AA- (05-Aug-16)	1)CARE A+ (14-Oct-15)
2.	Fund-based - ST-PC/Bill Discounting	ST	81.21	CARE A1+	-	1)CARE A1+ (15-Nov-17) 2)CARE A1+ (28-Sep-17)	1)CARE A1+ (02-Mar-17) 2)CARE A1+ (05-Aug-16)	1)CARE A1+ (14-Oct-15)
3.	Term Loan-Long Term	LT	55.69	CARE AA; Stable	-	1)CARE AA; Stable (15-Nov-17) 2)CARE AA; Stable (28-Sep-17)	1)CARE AA; Stable (02-Mar-17) 2)CARE AA- (05-Aug-16)	1)CARE A+ (14-Oct-15)
4.	Non-fund-based - ST-BG/LC	ST	401.01	CARE A1+	-	1)CARE A1+ (15-Nov-17)	1)CARE A1+ (02-Mar-17)	1)CARE A1+ (14-Oct-15)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
						2)CARE A1+ (28-Sep-17)	2)CARE A1+ (05-Aug-16)	
5.	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	1223.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (15-Nov-17) 2)CARE AA; Stable / CARE A1+ (28-Sep-17)	1)CARE AA; Stable / CARE A1+ (02-Mar-17) 2)CARE AA- / CARE A1+ (05-Aug-16)	1)CARE A+ / CARE A1+ (14-Oct-15)
6.	Commercial Paper-Commercial Paper (Standalone)	ST	600.00	CARE A1+	-	1)CARE A1+ (15-Nov-17) 2)CARE A1+ (28-Sep-17)	1)CARE A1+ (02-Mar-17) 2)CARE A1+ (05-Aug-16)	1)CARE A1+ (14-Oct-15) 2)CARE A1+ (27-May-15)
7.	Commercial Paper-Commercial Paper (Carved out)	ST	100.00	CARE A1+	-	1)CARE A1+ (15-Nov-17) 2)CARE A1+ (28-Sep-17)	1)CARE A1+ (02-Mar-17) 2)CARE A1+ (05-Aug-16)	1)CARE A1+ (14-Oct-15) 2)CARE A1+ (27-May-15)
8.	Debentures-Non Convertible Debentures	LT	100.00	CARE AA; Stable	-	1)CARE AA; Stable (15-Nov-17) 2)CARE AA; Stable (28-Sep-17) 3)CARE AA; Stable (01-Aug-17)	-	-
9.	Debentures-Non Convertible Debentures	LT	100.00	CARE AA; Stable	-	1)CARE AA; Stable (15-Nov-17) 2)CARE AA; Stable (28-Sep-17)	-	-

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