Arvind Goodhill Suit Manufacturing Private Limited

January 08, 2021

Rating

Facilities	Amount (Rs. Crore)	Ratings[1]	Rating Action
Long-term/ Short Term Bank Facilities	-	-	Reaffirmed at CARE BBB; Stable and CARE A3+ and Withdrawn
Short-term Bank Facilities	-	-	Reaffirmed at CARE A3+ and Withdrawn
Total Facilities	-		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has reaffirmed and simultaneously withdrawn the outstanding ratings of 'CARE BBB; Stable/ CARE A3+' [Triple B; Outlook: Stable/ A Three Plus] assigned to the bank facilities of Arvind Goodhill Suit Manufacturing Private Limited (AGPL) with immediate effect. The above action has been taken at the request of AGPL and 'No Objection Certificate' and 'No Dues Certificate' received from the banks that have extended the facilities rated by CARE.

The reaffirmation of the ratings of AGPL prior to its withdrawal, takes into account its strong parentage of Arvind Limited (Arvind; rated CARE AA-; Negative/ CARE A1+) with which it also has operational synergies, technical and commercial support from the other Joint Venture (JV) partner Goodhill Corporation Limited, Japan (GCL) and its moderate leverage apart from favourable demand outlook for Indian apparel industry.

The ratings, however, continue to remain constrained on account of the modest scale of operations of AGPL marked by modest net worth base, weak debt coverage indicators due to net loss incurred in FY20 (FY refers to the period from April 01 to March 31), its working capital intensive operations and high dependence on few export customers. Further, the profitability of the company remains susceptible to order inflow from few large customers apart from volatility in raw material prices and foreign exchange fluctuation risk apart from adverse impact of COVID-19 on textile sector.

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage of Arvind

Arvind, 51% JV partner in AGPL, is the flagship company of the Ahmedabad based Lalbhai group which was founded by Late Mr.Kasturbhai Lalbhai in 1931. Arvind is one of India's leading vertically integrated textile companies with presence of more than eight decades in the industry. AGPL derives strong financial flexibility and managerial support due to its parentage of Arvind. During FY19 and FY20, Arvind group has infused need-based funds in AGPL to support its operation. The inter-corporate deposits from Arvind group stood at Rs.17.81 crore as on March 31, 2020.

Operational synergy with its parent, Arvind and support of GCL in the manufacturing of suits Arvind is a leading domestic player in manufacturing of denims and shirts and has seven production facilities across the country. With GCL, Arvind has entered into worsted fabric and suit manufacturing, thereby expanding its product portfolio. AGPL leverages upon the vast experience and technological knowhow of Arvind for manufacturing suits. GCL, Japan, has more than 50 years of experience in men and women garment manufacturing. GCL is one of the leading suit manufacturers of Japan having more than 40% market share in customized clothing.

Moderate leverage

Post the implementation of IND-AS 116, the company has recognized lease repayment obligation to the extent of Rs.7.07 crore with recognition of corresponding assets of Rs.5.54 crore with effect from April 1, 2019. The difference between right to use asset and the lease liability is adjusted against the reserves impacting the net worth base to that extent. The leverage of the company remained moderate marked by an overall gearing ratio of 1.44 times as on March 31, 2020 post implementation of IND-AS 116 considering the lease liability as debt. Further, the adjusted overall gearing (without considering lease liability as debt) continued to remain moderate at 1.20 times as on March 31, 2020. The debt profile of the company majorly consists of working capital borrowings of Rs.20.09 crore, term debt of Rs.6.83 crore and inter-corporate deposits of Rs.17.81 crore aggregating to total debt of Rs.51.80 crore as on March 31, 2020. Further, excluding the ICDs, the external debt reduced from around Rs.36 crore as on March 31, 2019 to around Rs.27 crore as on March 31, 2020.

Favourable long-term growth prospects of branded apparel business post effective control of COVID-19 pandemic

The trend of increasing urbanization and expectation of better disposable income post the economic slowdown induced by measures to control the outbreak of the corona virus is likely to augur well for the branded apparel segment's long-

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

term growth prospects in India. In the long-term, the organized apparel retail market is likely to exhibit good growth due to expectation of increased consumer spending driven by changing demographic profile, high brand consciousness, rising income and purchasing power, increasing number of dual income-nuclear families, changing lifestyle and consumer behaviour.

Key Rating Weaknesses

Weak financial risk profile with modest scale of operations along with net loss and weak in debt coverage indicators during FY20

AGPL with total operating income (TOI) of ~Rs.83 crore is a relatively small sized player in the apparel industry. Further, revenue from one export customer constitutes around 40% of TOI making its operations heavily dependent on a single customer along with high customer concentration risk. Moreover, AGPL incurred a net loss of Rs.15 crore during FY20 largely on account of operating loss incurred due to marked down of non-moving inventories (written down value of non-moving inventories) and increased in other overhead expenses. The losses have been supported by infusion of inter-corporate deposits from Arvind group entities. Due to net loss and cash losses incurred by AGPL in FY20, the debt coverage indicators continued to remain weak during FY20.

Vulnerability of operating margin to volatility in cotton fabric prices and foreign exchange rate fluctuation

Cotton fabric is the key raw material for AGPL, the price of which depends upon the cotton and cotton yarn prices. Over the years, the prices of cotton have remained highly volatile mainly due to changes in global demand supply scenario and adverse weather conditions at times. Further, AGPL also exports its products which expose it to foreign exchange fluctuation risk. The export sales constituted 76% of the TOI during FY20 with dependency on few large customers. Any slowdown in order inflow can impact the profitability of AGPL due to its high operating leverage. The company hedges its forex exposure from time to time depending upon the market conditions which is being monitored centrally by Arvind as articulated by the management of the company.

Inherent working capital-intensive operations which is expected to be further exacerbated due to the COVID-19 crisis

The operations of AGPL are inherently working capital intensive as reflected by elongated inventory holding period as the company has to stock the required raw materials for smooth execution of orders. The operating cycle may elongate due to slowdown in consumption demand for non-essential goods in the light of economic downturn brought about by COVID19.

Adverse impact of Covid-19 pandemic on textile sector

The closure of retail stores and malls on account of lockdown situation across the nation has impacted the demand for textile industry. On the international front, spread of COVID-19 in top export destinations such as Europe and US (together accounting for about 60% of the total apparel exports) has resulted in closure of retail stores and malls there. Even after the lockdown has lifted, demand recovery is gradual and delayed in consumer demand given the relatively discretionary nature of the apparel products in the backdrop of likely economic slowdown. This has also impacted the demand of other textile products including cotton yarn and fabric. Demand from domestic market has recovery only to the tune of 30% to 40% across various textile products largely in the rural and semi-urban areas while demand from urban area is yet to resume apparel consumption in a substantial manner which is major customer for branded apparel. Further, the labour intensive nature of operations of the textile sector could impact its profitability due to sub optimal capacity utilization in near term for ensuring adherence to norms of social distancing. The strength of the recovery will be contingent on the duration and extent of the Covid-19 pandemic, where a prolonged downturn in apparel demand will constrain revenues and earnings of the sector. Further, in medium to long term, some demand from US and EU market is expected to shift gradually from China to other major garmenting manufacturers including India to reduce dependence on China.

Liquidity: Adequate

The liquidity of AGPL is underpinned by the need-based demonstrated fund infusion from its strong JV partners (especially Arvind). The losses have been supported by infusion of inter-corporate deposits from Arvind group entities which stood at Rs.17.81 crore as on March 31, 2020 and the dependency on external working capital borrowings remained stable. Furthermore, it is to be noted that AGPL had availed the moratorium for the debt and interest obligation due between March-August 2020, the option for which was provided by the Reserve Bank of India (RBI) as a COVID-19 relief measure.

Analytical Approach: Standalone along with factoring operational and management linkages with Arvind.

Applicable Criteria:

Policy on Withdrawal of ratings
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition

Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
CARE's methodology for manufacturing companies
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology - Factoring Linkages - Parent Sub JV Group

About the company
Incorporated in February 2013, AGPL is a 51:49 joint venture (JV) between Ahmedabad based textile major Arvind and Japan based Goodhill Corporation Limited (GCL). GCL directly holds nearly 29% in AGPL and holds another 20% through its associate company, F-One Limited, Japan. AGPL is engaged in manufacturing of suits having an installed capacity of 3,60,000 pieces of jackets, 1,20,000 pieces of waist coat and 5,20,000 pairs of trousers annually at its sole state-of-the-art manufacturing facility located near Bengaluru as on March 31, 2019.

(Rs. Crore)

Brief Financials of AGPL	FY19 (A)	FY20 (A)*
Total Operating Income	59.76	83.49
PBILDT	2.89	(10.72)
PAT	(2.19)	(15.08)
Overall Gearing (times) including lease liability	-	1.44
Overall Gearing (times) excluding lease liability	*0.78*	*1.20*
PBILDT Interest Coverage (times)	1.00	(2.50)

*A: Audited; *Post implementation of IND-AS 116*

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History (Last three years): Please refer Annexure-2
Complexity level of various instruments rated for this company: Annexure-3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-Working Capital Limits	-	-	-	0.00	Withdrawn
Fund-based - LT/ ST-Working Capital Limits	-	-	-	0.00	Withdrawn
Term Loan-Long Term	-	-	-	0.00	Withdrawn

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT/ ST-Working Capital Limits	LT/ST	-	Withdrawn	-	1)CARE BBB; Stable / CARE A3+ (19-Dec-19)	1)CARE BBB+; Stable / CARE A2 (25-Jan-19)	1)CARE BBB+; Stable / CARE A2 (06-Nov-17)
2.	Fund-based - LT/ ST-Working Capital Limits	LT/ST	-	Withdrawn	-	1)CARE BBB; Stable / CARE A3+ (19-Dec-19)	1)CARE BBB+; Stable / CARE A2 (25-Jan-19)	1)CARE BBB+; Stable / CARE A2 (06-Nov-17)
3.	Term Loan-Long Term	LT	-	Withdrawn	-	1)CARE BBB; Stable (19-Dec-19)	1)CARE BBB+; Stable (25-Jan-19)	1)CARE BBB+; Stable (06-Nov-17)

Annexure-3: Complexity level of the rated instruments

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT/ ST-Working Capital Limits	Simple
2.	Fund-based - LT/ ST-Working Capital Limits	Simple
3.	Term Loan-Long Term	Simple

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

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