Arvind Smart Textiles Limited

October 05, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	16.06 (Reduced from 24.79)	CARE A+; Stable	Revised from CARE AA- (CE); Stable
Long-term/Short-term bank facilities	45.00	CARE A+; Stable/ CARE A1+	Revised from CARE AA- (CE); Stable/ CARE A1+ (CE)
Long-term/Short-term bank facilities	45.00	CARE A+; Stable/ CARE A1+	Assigned

Details of instruments/facilities in Annexure-1.

Unsupported Rating As stipulated vide SEBI circular dated June 13, 2019	Withdrawn [Withdrawn]

Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Arvind Smart Textiles Limited (ASTL) take into account the change in analytical approach adopted by CARE Ratings Limited (CARE Ratings) for assessment of credit profile of ASTL. The analytical approach is revised as the credit enhancement structure available on the rated bank facilities does not fully comply with Reserve Bank of India's guidance note and FAQs on bank loan – credit enhanced ratings.

The ratings of ASTL continue to derive strength from its strong parentage of Arvind Limited (Arvind; rated: CARE AA-; Stable/ CARE A1+) with demonstrated financial support, operational synergy with Arvind, reputed customer base and benefits available under various policy initiatives of the Central and State Governments for the textile sector. The ratings also factor ramp-up in the production of garments leading to improvement in its scale of operations, profitability, leverage, debt coverage indicators and return ratio.

The above rating strengths are, however, tempered by its moderate scale of operations despite significant increase and susceptibility of its profitability to volatile raw material prices and foreign currency fluctuation. The ratings are also tempered by its concentrated clientele and intense competition from other major garment exporting countries that limits its pricing flexibility, and the high working capital requirements inherent in the business. CARE Ratings also takes into account sluggish export demand in H1FY24 (refers to period April 01 to March 31) which is expected to rebound in H2FY24 with restocking of inventories by global brands and retailers.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in the scale of operations marked by total operating income (TOI) to over ₹800 crore while maintaining PBILDT margin of over 12% and ROCE of over 20% on a sustained basis.

Negative factors

- Any large debt-funded capex, leading to a deterioration of the capital structure, with the overall gearing above 1.0x on a sustained basis.
- Decline in its profitability resulting in moderation in its debt coverage indicators with total debt/ PBILDT moving above 2.0x on a sustained basis.

Analytical approach: Standalone along with factoring operational, managerial and financial linkages with its ultimate parent company, Arvind which holds 90% shareholding in ASTL. The analytical approach is revised as the credit enhancement structure available on the rated bank facilities does not fully comply with Reserve Bank of India's guidance note and FAQs on bank loan – credit enhanced ratings.

Outlook: Stable

CARE Ratings believes ASTL will continue to benefit from the extensive experience of its parent, Arvind and established relationships with clients, leading to steady profitability.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Detailed description of the key rating drivers:

Key strengths

Strong parentage of Arvind with demonstrated financial support

Arvind is one of the India's leading vertically integrated textile companies with the presence of more than eight decades in the industry. Moreover, Arvind is amongst the largest denim and woven fabric manufacturers, with an installed capacity of more than 100 million meters per annum (MMPA) and 150 MMPA respectively as on March 31, 2023. Furthermore, Arvind had an installed capacity of nearly 45 million pieces of readymade garment (RMG) as on March 31, 2023. Arvind also manufactures a range of cotton shirting, knits, bottom weights (Khakis) fabrics under textile division and manufactures technical textiles such as composites, coated fabric, human protection fabric and garment, liquid filtration solutions, etc. under advance material division. Arvind, through its subsidiary, Arvind Envisol Limited (AEL; rated 'CARE BBB+; Stable/ CARE A2'), is also engaged in assembling and installation of waste-water treatment plants.
Over the past four years ended FY23, Arvind, parent of ASTL, infused funds of around ₹160 crore in ASTL.

Operational synergy with its parent, Arvind

Over the years, Arvind has increased its focus on garmenting as a forward integration initiative to convert its fabric into garments thereby reducing its dependence on the cyclical denim industry. During FY18-FY20, Arvind undertook a large-sized capex and almost doubled its garmenting facilities. More than ever before, key global brands and retailers are now preferring a one-stop sourcing instead of sourcing fabric and then getting it converted into garment. With the expected ramp-up in production, Arvind is planning to further expand its garmenting capacity from 45 million pieces to 61 million pieces during FY24-FY25. Arvind offers a complete vertical solution ranging from suits to jeans and from formals to casuals. ASTL gets benefited from the long experience and technological know-how of Arvind for manufacturing RMG.
Various policy initiatives by Central and State Government such as capital subsidy, interest subsidy, payroll assistance, special concession in power tariff, refund of State Goods and Service Tax (SGST) etc. also supports ASTL's profitability. Arvind has set up garment manufacturing units at Ranchi & Ahmedabad to avail such benefits. Arvind exports majority of its garments to its already established customer base worldwide which provides ASTL a ready market for its products. However, top 10 customers contributed 77% of ASTL's revenue during FY23 (FY22: 67%) reflecting concentrated customer base.

Growth in revenue with improvement in profitability during FY23

During FY23, TOI of ASTL grew by 88% over FY22 supported by improved product mix and better realisations followed by depreciation of INR against the USD. The benefit of operating leverage led to improvement in its PBILDT margin from 9.26% in FY22 to 12.06% in FY23. The PBILDT interest coverage, too, improved to a healthy level of 10.21x during FY23. Net profit and cash accruals also improved with growth in scale and improvement in PBILDT margin. Despite significant growth in TOI and profitability during FY23, ASTL's scale of operations continued to remain moderate with TOI of ₹474 crore and net profit of ₹38 crore in FY23 and net worth of ₹120 crore as on March 31, 2023.
During Q1FY24, ASTL achieved TOI of ₹104 crore with PBILDT of ₹4 crore as against TOI of ₹121 crore and PBIDLT of ₹17 crore during Q1FY23. The decline in profitability in Q1FY24 was mainly due to lower sales volume amidst muted export demand and higher share of domestic sales in revenue which fetches relatively lower margin. With the expected improvement in demand in H2FY24, CARE Ratings expects TOI of ASTL to grow by 5-10% in FY24 over FY23 with largely stable PBILDT margin.

Comfortable capital structure and debt coverage indicators

Capital structure marked by overall gearing ratio improved and continued to remain comfortable at 0.34x March 31, 2023 supported by schedule repayment of term debt and accretion of profits to reserve. Moreover, with improvement in profitability and cash accruals coupled with reduction in debt level, debt coverage indicators marked by PBILDT interest coverage and total debt/ GCA also improved from 2.78x and 4.44 x respectively in FY22 to 10.21x and 0.78x respectively in FY23.

Liquidity: Adequate

Despite high working capital requirements inherent in the business, liquidity of ASTL is adequate marked by envisaged healthy cash accruals, comfortable current ratio at 1.69x as on March 31, 2023 and nil utilization of its working capital limits for the trailing 12 months ended July 2023. Recently, ASTL has started utilising working capital limit from August 2023. Moreover, ASTL has a relatively low term debt repayment obligation of ₹6-15 crore per annum during FY24-FY26 years as against envisaged cash accruals of around ₹50 crore per annum, indicating adequate cushion in its debt servicing. Furthermore, ASTL derives strong financial flexibility and managerial support due to its parentage of Arvind.

Key weaknesses

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

Cotton fabric is the key raw material for ASTL, the prices of which depend upon the cotton and cotton yarn prices. Over the years, the prices of cotton remained highly volatile mainly due to changes in global demand-supply scenario. Moreover, the prices of cotton are linked to agricultural output, which in turn, is exposed to factors such as vagaries of the monsoon, acreage, yield level and change in government policy both domestically and in international market. After recording a peak of around ₹1 lakh per candy in FY23, domestic cotton prices corrected with the arrival of the new crop, and they are currently hovering in the range of around ₹56,000-₹60,000 per candy, aligning with international prices. Furthermore, ASTL earns 50-55% of its revenue from the exports, thereby, any sharp fluctuation in forex rates affects realisations and accrual. This exposes the operating margin to fluctuations in forex rates.

Competitive textile industry

ASTL remains exposed to intense competition from countries such as Bangladesh, Vietnam and Pakistan, which have lower labour costs, and receive preferential treatment in the form of lower import duties and free-trade agreements from key apparel consuming geographies. This, coupled with limited bargaining power with large international players, limits ASTL's ability to expand its operating margins. Furthermore, the margins remain exposed to fluctuations in cotton and forex rates. Also, the business faces margin risks related to any revisions in the fiscal/export incentive structure. Furthermore, continuing high inflation and economic slowdown in the key export markets, i.e., Europe and USA can hinder India's textile exports in the near term, which could also impact ASTL. Pick-up of demand in Europe and USA and re-stocking process by garment brands and retailers remain key monitorable.

Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Cotton Textile
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Textiles	Textiles & Apparels	Garments & Apparels

Incorporated in December 2017, ASTL is a wholly-owned subsidiary of Arvind. It is engaged in the manufacturing of ready to wear garments. ASTL has capacity to produce 400,000 pieces of shirts/ knitwear per month at its manufacturing facility located at Ranchi, Jharkhand, and 600,000 pieces of indigo knits per month at its facility located at Ahmedabad, Gujarat.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	Q1FY24 (UA)
Total operating income	251.53	473.56	103.60
PBILDT	23.28	57.11	3.88
PAT	2.95	38.28	4.04
Overall gearing (times)	0.69	0.34	NA
Interest coverage (times)	2.78	10.21	4.79

A: Audited UA: Unaudited; NA; Not available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan	-	-	-	30/09/2025	16.06	CARE A+; Stable
Fund-based - LT/ ST-Working capital limits	-	-	-	-	45.00	CARE A+; Stable/ CARE A1+
Fund-based/Non-fund-based-LT/ST	-	-	-	-	45.00	CARE A+; Stable/ CARE A1+
Un Supported rating-Un Supported rating (LT/ST)	-	-	-	-	0.00	Withdrawn

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term loan	LT	16.06	CARE A+; Stable	-	1)CARE AA- (CE); Stable (10-Oct-22)	1)CARE AA- (CE); Stable (23-Nov-21) 2)CARE AA- (CE); Negative (07-Sep-21)	1)CARE AA- (CE); Negative (29-Sep-20) 2)CARE AA- (CE); Negative (02-Jun-20)
2	Fund-based - LT/ ST-Working capital limits	LT/ ST*	45.00	CARE A+; Stable / CARE A1+	-	1)CARE AA- (CE); Stable / CARE A1+ (CE) (10-Oct-22)	1)CARE AA- (CE); Stable / CARE A1+ (CE) (23-Nov-21) 2)CARE AA- (CE); Negative / CARE A1+ (CE) (07-Sep-21)	1)CARE AA- (CE); Negative / CARE A1+ (CE) (29-Sep-20) 2)CARE AA- (CE); Negative / CARE A1+ (CE) (02-Jun-20)
3	Fund-based/Non-fund-based-LT/ST	LT/ ST*	45.00	CARE A+; Stable / CARE A1+	-	-	-	-
4	Non-fund-based - LT/ ST-BG/LC	LT/ ST*	-	-	-	-	1)Withdrawn (07-Sep-21)	1)CARE AA- (CE); Negative / CARE A1+ (CE) (29-Sep-20) 2)CARE AA- (CE); Negative / CARE A1+ (CE) (02-Jun-20)
5	Un Supported rating-Un Supported rating (LT/ST)	LT/ ST*	-	Withdrawn	-	1)CARE A+ / CARE A1+ (10-Oct-22)	1)CARE BBB / CARE A3+ (23-Nov-21) 2)CARE BBB / CARE A3+ (07-Sep-21)	1)CARE BBB / CARE A3+ (29-Sep-20) 2)CARE BBB / CARE A3+ (02-Jun-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term loan	Simple
2	Fund-based - LT/ ST-Working capital limits	Simple
3	Fund-based/Non-fund-based-LT/ST	Simple
4	Un Supported rating-Un Supported rating (LT/ST)	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

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

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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