Arvind Envisol Limited

October 05, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	10.09	CARE BBB+; Stable	Revised from CARE AA- (CE); Stable
Long-term/ Short-term bank facilities	137.00 (Enhanced from 85.00)	CARE BBB+; Stable/ CARE A2	Revised from CARE AA- (CE); Stable/ CARE A1+ (CE)
Short-term bank facilities	1.00	CARE A2	Revised from CARE A1+ (CE)

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Unsupported Rating As stipulated vide SEBI circular dated June 13, 2019	Withdrawn [Withdrawn]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 Envisol Limited (AEL) take into account change in analytical approach adopted by CARE Ratings Limited (CARE Ratings) for assessment of credit profile of AEL. 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 AEL continue to derive strength from its strong parentage of Arvind Limited (Arvind; rated: 'CARE AA-; Stable/ CARE A1+'), established track record along with in-house developed patented technology, its reputed and diversified clientele, comfortable capital structure despite moderation in FY23 (refers to period April 01 to March 31), improved debt coverage indicators and its adequate liquidity.

The above rating strengths are, however, tempered by its moderate scale of operations along with volatile profitability in waste-water infrastructure business, modest and concentrated order book position, and high working capital intensity due to elongated debtor collection period. The ratings also remain constrained due to susceptibility of its profitability to adverse movement in foreign exchange rates and its presence in a fragmented and competitive construction industry. CARE Ratings also take note of net loss incurred by the company in FY23 on the back of large size provisioning of bad debts amounting to ₹50 crore.

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 ₹500 crore with sustained improvement in PBILDT margin over 7-8%.

Negative factors

- Deterioration in its liquidity profile along with elongation of gross operating cycle beyond 200 days.
- Deterioration in capital structure with TOL/ TNW above 2x.

Analytical approach: Standalone along with factoring the parentage of Arvind which holds 100% shareholding in AEL. 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 AEL will continue to benefit from established relationships with clients leading to growth in revenue with steady profitability.

Detailed description of the key rating drivers:

Key strengths

Strong parentage of Arvind

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 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 AEL is also engaged in assembling and installation of waste-water treatment plants. AEL is expected to benefit from the strong parentage in future.

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

In-house developed patented technology for waste-water treatment

AEL has developed patented technology of polymeric mechanical vapour recompression evaporator. Polymeric film evaporation technology (PFET) developed by AEL uses polymeric film heat exchangers instead of conventional metal heat exchangers and uses very less energy compared to the steam-based heat exchangers thereby reduces the operational cost of the evaporators. Moreover, AEL provides complete solutions from designing of water treatment plant to engineering, procurement and construction (EPC), operation and maintenance (O&M) and component supply. AEL has track record of around 12 years and has executed over 350 projects including effluent treatment plants (ETP), common effluent treatment plants (CETP), sewage treatment plants (STP), zero liquid discharge (ZLD) etc. AEL has also four registered patents across the globe.

Reputed and diversified clientele

AEL has undertaken projects spread over different industries such as textile, pharmaceuticals, paper, chemicals, oil and gas, automobiles etc. The company had undertaken projects for reputed client base consisting of large corporations and government units which includes Indian Oil Corporation Limited, Hindustan Zinc Limited, Atul Limited (rated: 'CARE AA+; Stable/ CARE A1+'), Steel Authority of India Limited (rated: 'CARE AA; Stable/ CARE A1+'), Gujarat Alkalies and Chemicals Ltd. (rated 'CARE AA+; Stable/ CARE A1+'), IPCA Laboratories Limited, Concord Biotech Limited, Teva Pharmaceuticals Industries Limited, Sabarkantha District Co-Operative Milk Producers Union Limited (rated: 'CARE AA+; Stable/ CARE A1+'), Raymond Limited [rated: 'CARE AA-;/CARE A1+ (RAD)'], JSW Steel Limited (rated: 'CARE AA; Stable/ CARE A1+'), The Coca-cola Company, Pepsico, TVS Motor Company Limited (rated: 'CARE AA+; Stable/ CARE A1+') among others. Top 10 customers contributed 57% of AEL's revenue during FY23 (FY22: 51%) including nearly 25% of revenue from Arvind. Apart from diversified client base spread over different industries and geography, large industrial players with established track record and a strong credit profile minimise counter party risk. Basis the existing order book, AEL is likely to earn around 50% of its revenue from top-10 customers in FY24.

Comfortable capital structure with improved debt coverage indicators and return ratio

The capital structure of AEL marked by TOL/ TNW witnessed moderation from 0.89x as on March 31, 2022 to 1.70x as on March 31, 2023 due to increase in debt level coupled with erosion of net worth backed by provision for receivables and unbilled revenue. However, overall gearing ratio continued to remain comfortable at 0.60x as on March 31, 2023 (March 31, 2022: 0.17x). The overall gearing ratio and TOL/ TNW ratio are expected to remain below 0.5x and 1.5x during FY24-FY26 in absence of any major debt drawl plan.

Despite increase in debt level, debt coverage indicators marked by PBILDT Interest coverage ratio and total debt/ PBILDT improved from 0.3x and 12.28x respectively in FY22 to 6.53x and 3.64x respectively in FY23 with improved operating profitability. Furthermore, return indicators marled by ROCE improved to 11% in FY23 and the same is expected to improve gradually to around 18-20% by FY25-FY26.

Liquidity: Adequate

Despite working capital intensive nature of operations, liquidity of AEL remains adequate marked by healthy current ratio (1.42x as on March 31, 2023) and very low utilization of fund based working capital limits. The company largely funds its working capital requirement through internal accruals and customer advances with lower reliance on external debt. The average utilisation of its working capital limits remained low at 44% during trailing 12 months ended June 2023 which mainly include utilisation of non-fund-based limit. Moreover, in absence of major term debt repayments obligation and capex, the liquidity of the company is expected to remain adequate.

Key weaknesses

Moderate scale of operations along with volatile profitability

During FY19-FY23, TOI of the company remained moderate at around ₹250-300 crore per annum while its PBILDT margin remained highly volatile between 4-24% during the same period. Furthermore, the PBILDT margin impacted significantly during FY22 on the back of sharp rise in commodity prices which the company was not able to pass on to its customers due to fixed-price contracts. With softness in raw material prices, PBILDT margin improved from 0.64% in FY22 to 4.38% in FY23. Profitability of the company also varies depending upon the share of revenue from project execution, O&M and trading in total operating income. Furthermore, during FY23, AEL incurred a net loss of ₹32 crore (FY22: ₹4 crore) as the company made provision of around ₹50 crore for receivables and unbilled revenue regarding project executed at Hawassa Industrial Park amidst civil conflict and political instability in Ethiopia.

Limited revenue visibility due to moderate orderbook position

The company has strengthened its relationships with key accounts in India via consistent service. During September 2023, AEL received order of around for O&M for one ETP for a period of five years. The company's order book position is modest with

orders of ₹123 crore outstanding as on September 15, 2023 resulting in the order book to sales ratio of 0.45 times providing limited revenue visibility. Moreover, average monthly sales from component trading business is around ₹8 crore. During FY23, AEL has added new categories in component business.
During Q1FY24, AEL achieved TOI of ₹62.38 crore (PY: ₹68.26 crore) with PBILDT of ₹2.41 crore (PY: ₹3.72 crore). CARE Ratings expects TOI of AEL to grow by at least 10% per annum over FY24-FY26 with gradual improvement in PBIDLT margin to around 6-7%.

Large working capital requirement
AEL's operations are working capital intensive in nature, on account of high receivable days. The payment for AEL's project orders is generally linked to project progress and the clients also retain a certain percentage of the contract value as retention money which is paid only after quality of the work is established post completion of the contract. Its operations are reliant on non-fund-based working capital limits which it utilises for providing financial bank guarantee (BG) against customer advances or mobilization advances, performance BG to its clients as well as LC for procurement of raw material and component. The gross operating cycle of the company improved to 157 days in FY23 (FY22: 205 days) supported by improvement in the collection efficiency coupled with provisioning for receivables.

Susceptibility of profitability to adverse movement in raw material prices and foreign exchange rates
AEL's profitability is susceptible to adverse movements in raw material prices in light of largely fixed-price nature of contract. The company also faces foreign exchange fluctuation risk on the un-hedged portion of its imported membranes and revenue from project executed outside India. During FY23, AEL reported forex gain of ₹5.65 crore as against forex loss of ₹1.76 crore in FY22.

Presence in a fragmented and competitive construction industry
Various initiatives undertaken by the Government of India to boost infrastructure has gradually resulted in an increased order inflow for the industry players. Moreover, with the government focusing more on compliance on pollution-control norms, it is expected to drive the growth of industry players going forward. However, the water treatment industry is highly fragmented and competitive, marked by the presence of a large unorganized sector. AEL also remains exposed to competitive pressure from established players. However, AEL being an established player with patented technology in the water treatment industry is insulate to some extent.

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
Construction
Policy on Withdrawal of Ratings

About the company and industry
Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Utilities	Utilities	Other Utilities	Water Supply & Management

Arvind Envisol Private Limited (AEPL) was incorporated in 2011, as a wholly-owned subsidiary of Arvind. During FY16, AEPL was amalgamated into Arvind Accel Limited (engaged in the same line of business), the name of which was subsequently changed to current one, i.e., AEL. It is engaged in the business of assembling and installation of waste-water treatment plants. AEL also provides O&M services for water treatment plants. Moreover, AEL holds patented technology for waste-water treatment which ensures zero liquid discharge at a low operating cost. Furthermore, AEL is also an authorised dealer of Hydranautics, USA, and markets reverse osmosis (RO) membranes in India.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	Q1FY24 (UA)
Total operating income	229.78	273.75	62.38
PBILDT	1.48	11.98	2.41
PAT	(4.37)	(31.55)	2.47
Overall gearing (times)	0.17	0.60	NA

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	Q1FY24 (UA)
Interest coverage (times)	0.30	6.49	8.54

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/Non-fund-based-LT/ST	-	-	-	-	137.00	CARE BBB+; Stable/ CARE A2
Non-fund-based-Long Term	-	-	-	-	10.09	CARE BBB+; Stable
Non-fund-based-Short Term	-	-	-	-	1.00	CARE A2
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/Non-fund-based-LT/ST	LT/ ST*	137.00	CARE BBB+; Stable/ CARE A2	-	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)
2	Non-fund-based-Long Term	LT	10.09	CARE BBB+; 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)
3	Non-fund-based-Short Term	ST	1.00	CARE A2	-	1)CARE A1+ (CE) (10-Oct-22)	1)CARE A1+ (CE) (23-Nov-21) 2)CARE A1+ (CE) (07-Sep-21)	1)CARE A1+ (CE) (29-Sep-20) 2)CARE A1+ (CE) (02-Jun-20)
4	Un Supported rating-Un Supported rating (LT/ST)	LT/ ST*	-	-	-	1)CARE BBB+/ CARE A2 (10-Oct-22)	1)CARE BBB+/ CARE A2 (23-Nov-21) 2)CARE BBB+/ CARE A2 (07-Sep-21)	1)CARE BBB+/ CARE A2 (29-Sep-20) 2)CARE BBB+/ CARE A2 (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/Non-fund-based-LT/ST	Simple
2	Non-fund-based-Long term	Simple
3	Non-fund-based-Short term	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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