Arvind Envisol Limited

October 09, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	10.09	CARE BBB+; Stable	Reaffirmed
Long-term/ Short-term bank facilities	137.00	CARE BBB+; Stable/ CARE A2	Reaffirmed
Short-term bank facilities	1.00	CARE A2	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Arvind Envisol Limited (AEL) continue to derive strength from its strong parentage of Arvind Limited (Arvind; rated: 'CARE AA-; Stable/ CARE A1+'), established track record and in-house developed patented technology and its reputed and diversified clientele. Ratings also factor AEL's comfortable capital structure and debt coverage indicators which improved in FY24 (refers to April 01 to March 31), and its adequate liquidity.

However, rating strengths are tempered by its moderate scale of operations with volatile profitability in waste-water infrastructure business, improved despite concentrated order book position and high working capital requirement. 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.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in the scale of operations to over ₹500 crore with sustained improvement in profit before Interest, lease rentals, depreciation and taxation (PBILDT) margin over 7-8%.
- Significant improvement in Arvind's credit profile.

Negative factors

- Deterioration in its liquidity profile along with elongation of gross operating cycle beyond 200 days.
- Deterioration in capital structure with total outside liability to total net worth (TOL/TNW) above 2x.
- Change in stance of support from or major deterioration in Arvind's credit profile.

Analytical approach: Standalone and factoring the parentage of Arvind which holds 100% shareholding in AEL.

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 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 over eight decades in the industry. Moreover, Arvind is among the largest denim and woven fabric manufacturers, with an installed capacity of 100 million meters per annum (MMPA) and 150 MMPA, respectively as on March 31, 2024. Arvind had an installed capacity of ~45 million pieces of readymade garment (RMG) as on March 31, 2024. 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, and liquid filtration solutions among others under advance material division. Arvind, through its subsidiary, AEL, is also engaged in assembling and installation of waste-water treatment plants. AEL is expected to benefit from strong parentage in future.

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 steam-based heat exchangers thereby reduces operational cost of evaporators. 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 ~13 years and has executed over 750 projects including effluent treatment plants (ETP), common effluent treatment plants (CETP), sewage treatment plants (STP), and zero liquid discharge (ZLD) etc. AEL has also three registered patents across the globe.

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

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 Limited. (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, 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 62% of AEL's revenue during FY24 (FY23: 60%) including ~35% 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 over 50% of its revenue from top-10 customers in FY25.

Comfortable capital structure and debt coverage indicators

AEL's capital structure marked by TOL/TNW witnessed an improvement to 1.15x as on March 31, 2024 (PY: 1.70x). Overall gearing ratio also improved and stood at 0.26x as on March 31, 2024, (PY: 0.60x) mainly due to lower mobilisation advances and acceptances. Overall gearing ratio and TOL/TNW ratio are expected to remain below 1.0x and 1.5x during FY25-FY27 in absence of any major debt drawl plan.

Despite moderation in profitability, debt coverage indicators and return indicators improved in FY24 due to lower debt level. PBILDT interest coverage ratio improved to 7.77x (PY: 6.53x) and total debt/PBILDT improved to 2.40x (PY: 3.64x). Return indicators marked by return on capital employed (ROCE) improved to 14% in FY24 (PY: 11%) and this is expected to improve gradually to over 20% by FY27.

Liquidity: Adequate

Despite working capital intensive operations, AEL's liquidity remains adequate marked by healthy current ratio of 1.59x as on March 31, 2024, (PY: 1.42x) and low utilisation of working capital limits. The company largely funds its working capital requirement through internal accruals and customer advances with lower reliance on external debt. AEL receives advance from the customer (non-interest bearing) to the extent of 10-15% of the order value, which supports AEL's working capital requirement. AEL submits performance bank guarantees (PBG) to its customers to prevent blocking of funds in customer retention money. Average utilisation of its working capital limits remained nil during trailing 12 months ended June 2024. Moreover, in absence of term debt repayments obligation and capex, the company's liquidity is expected to remain adequate.

Key weaknesses

Moderate scale of operations with improved albeit concentrated order book position

AEL's TOI remained largely stable in FY24 over FY23 and stood at ₹263 crore. PBILDT margin remained volatile in range of 1-4% during FY21-FY23 as profitability varies depending upon the share of revenue from project execution, O&M and trading revenue in total operating income. PBILDT margin declined by 108 bps on a y-o-y basis to 3.30% in FY24 mainly due to lower execution of projects.

The company is strengthening relationships with key accounts in India to build consistent service business. In past two years ended FY24, AEL received two orders of ~₹90-100 crore each for O&M services for period of five years. The company's order book position improved on a y-o-y basis with orders of ₹175 crore (PY: 123 crore) outstanding as on June 30, 2024, resulting in the order book to sales ratio of 0.67x (PY: 0.45x) providing revenue visibility. Additionally, average monthly sales from component trading business is ~₹8 crore.

During Q1FY25, AEL achieved TOI of ₹55.57 crore (PY: ₹62.38 crore) with moderation in PBILDT margin. With improved order book, CARE Ratings expects AEL's TOI to grow by at least 10% per annum over FY25-FY26 with gradual improvement in PBIDLT margin to ~5-6%.

Large working capital requirement

AEL's operations are working capital intensive, considering high receivable days. Payment for AEL's project orders is generally linked to project progress and clients also retain a certain percentage of 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 mobilisation advances, performance BG to its clients and LC for procurement of raw material and component. The company's gross operating cycle improved to 125 days in FY24 (FY23: 157 days) supported by improvement in the collection efficiency and provisioning for receivables in FY23.

Susceptibility of profitability to adverse movement in input prices and foreign exchange rates
AEL's profitability is susceptible to adverse movements in raw material prices, considering largely fixed-price contract. The company also faces foreign exchange fluctuation risk on un-hedged portion of its imported membranes and revenue from project executed outside India. During FY24, AEL reported forex loss of ₹0.91 crore as against forex gain of ₹2.46 crore in FY23.

Presence in a fragmented and competitive construction industry
Various initiatives undertaken by the Government of India (GOI) 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 unorganised 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

Definition of Default
Factoring Linkages Parent Sub JV Group
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Construction
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Utilities	Utilities	Other utilities	Water supply and 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)	FY23 (A)	FY24 (A)	Q1FY25 (UA)
Total operating income	273.75	262.70	55.57
PBILDT	11.98	8.64	-0.02
PAT	(31.55)	7.34	-0.60
Overall gearing (times)	0.60	0.26	NA
Interest coverage (times)	6.49	7.76	NM

A: Audited UA: Unaudited; NA: Not available; NM: Not meaningful; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and 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

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based/Non-fund-based-LT/ST	LT/ ST	137.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (05-Oct-23)	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)
2	Non-fund-based-Long Term	LT	10.09	CARE BBB+; Stable	-	1)CARE BBB+; Stable (05-Oct-23)	1)CARE AA- (CE); Stable (10-Oct-22)	1)CARE AA- (CE); Stable (23-Nov-21) 2)CARE AA- (CE); Negative (07-Sep-21)
3	Non-fund-based-Short Term	ST	1.00	CARE A2	-	1)CARE A2 (05-Oct-23)	1)CARE A1+ (CE) (10-Oct-22)	1)CARE A1+ (CE) (23-Nov-21) 2)CARE A1+ (CE) (07-Sep-21)
4	Un Supported Rating-Un Supported Rating (LT/ST)	LT/ ST	-	-	-	1)Withdrawn (05-Oct-23)	1)CARE BBB+ / CARE A2 (10-Oct-22)	1)CARE BBB+ / CARE A2 (23-Nov-21) 2)CARE BBB+ / CARE A2 (07-Sep-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of 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

Annexure-5: Lender details

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

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

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About us:
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