Arvind Fashions Limited

September 29, 2020

Ratings

Facilities	Amount (Rs. Crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	18.20 (reduced from 20.00)	**CARE A-; Negative (Single A Minus; Outlook: Negative)**	**Reaffirmed**
Short Term Bank Facilities	90.00 (reduced from 150.00)	**CARE A2+ (A Two Plus)**	**Reaffirmed**
Long term/ Short term Bank Facilities	130.00	**CARE A-; Negative/ CARE A2+ (Single A Minus; Outlook: Negative/ A Two Plus)**	**Reaffirmed**
Total Facilities	**238.20 (Rupees Two Hundred Thirty Eight Crore and Twenty Lakh Only)**		

Details of instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Arvind Fashions Limited (AFL) continue to derive strength from AFL being part of the Ahmedabad based 'Arvind Lalbhai' group which has a track record of over a decade in the apparel brands and retail business, AFL's strong brand portfolio of various owned and licensed international brands which majorly comprises of brands owned and licensed by its subsidiary i.e. Arvind Lifestyle Brands Limited [ALBL; rated: CARE A- (CE); Negative and CARE A2+ (CE)], its pan-India retail presence across multiple sales channel and diversified revenue mix; albeit concentrated towards men's wear. The ratings also favorably factor in cash inflow of Rs.400 crore by way of rights issue (which is higher than previously envisaged) and Rs.260 crore from strategic sale of significant minority stake in its step down subsidiary Arvind Youth Brands Private Limited (AYB; which houses the 'Flying Machine' brand) to Flipkart Group (FG) in July 2020. The proceeds from the rights issue and strategic sale along with cash flow realized from the contraction of working capital cycle has been utilized towards reduction of its debt and stretched creditors at a consolidated level and balance for funding of its losses (which is also expected to be higher than previously envisaged in FY21). The ratings also factor in expected improvement in the cash flow position of AFL post discontinuation of some of the loss incurring growth/emerging brands and steps taken by the management to curtail the hitherto high receivables in its wholesale/online channels; which has already been largely achieved during FY20 (A; FY refers to the period April 01 to March 31) according to the company management. CARE also takes cognizance of various management initiatives for improving AFL's profitability through steps such as adding retail space for Sephora at strategic locations, even as it has taken steps like closing down loss making stores, liquidating the aged inventories and overhead cost rationalization initiatives such as renegotiation of lease rentals/ lockdown waivers, one-time royalty concessions, marketing cuts, reduction of headcount and manpower cost to counter the loss of sale due to imposition of lockdown to control the spread of corona virus. While some of overhead cost rationalisation steps are temporary in nature, the company expects to achieve structural cost reduction of Rs.120-150 crore by end-FY21 as compared with FY20 at a consolidated level thereby imparting more cushion to its profitability going forward.

The ratings, however, continue to remain constrained on account of deterioration in AFL's debt coverage and leverage indicators arising from net loss of Rs.399 crore incurred by it on a consolidated level during FY20 which was higher than previously envisaged considering the COVID related losses and provisioning. As articulated by the company management, the profitability was impacted largely due to continued subdued performance of its value retail format, 'Unlimited' apart from weak performance of its 'Arrow' brand within its 'Power Brand' category, and was further aggravated by the outbreak of COVID-19 in the last quarter of FY20. The company witnessed a y-o-y de-growth in its total operating income (TOI) during FY20 on account of ongoing consumption slowdown due to weak consumer sentiment, company's decision to curtail its primary sales so as to reduce exposure to its long credit period customers which also led to inventory losses and the impact of COVID-19. The ratings also continue to remain constrained on account of the losses in its growth/emerging brands, high reliance on external borrowings and creditors to support its working capital requirement and funding of losses as reflected from the high utilization of its working capital limits, AFL's presence in a highly competitive fashion retail industry and susceptibility of its operations to downturn in the economic cycle which is likely to be further exacerbated by the prevailing pandemic and expectation of lower demand for discretionary products in the medium-term leading to further losses in FY21 (though the infusion of non-debt funding of Rs. 660 Crore in July will provide relief). Furthermore, weak profitability and increased debt levels have resulted in moderation in its debt coverage indicators and weak ROCE as compared to many of its peers. CARE also takes note of the company availing the moratorium granted by its lenders as a COVID relief measure (as permitted by the Reserve Bank of India) for a period of six months from March-August'20 for its debt obligations, including term debt repayments and interest obligations, and the fact that repayments post moratorium so far have been timely.

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

Outlook: Negative

The 'Negative' outlook on the rating of AFL reflects CARE's expectation of likely adverse impact on the credit profile of the company in the medium-term despite staggered easing of the lockdown from June 2020. Recovery in consumer demand and footfalls is likely to be delayed and gradual given the discretionary nature of the apparel products in the backdrop of people avoiding visiting crowded places like malls/retail outlets and the overall lower income levels due to higher unemployment as a result of the expected economic downturn due to impact of COVID-19 pandemic. CARE expects the consumers to curtail their discretionary spending with reduced income as well as tendency to preserve cash due to uncertain environment. In the light of lower revenue and profitability, the debt coverage indicators of AFL are likely to be affected; albeit cushion is available from infusion of non-dent funds in the company. The outlook may be revised to 'Stable' on sustained improvement in demand along with improvement in its profitability and/ or sizable reduction of its debt level leading to better liquidity, leverage and debt coverage indicators than presently envisaged for FY21.

Rating Sensitivities

Positive Factors

- Revival of consumer demand to normalcy levels leading to improvement in its operational performance and profitability margins along with RoCE of more than 14%-15% on a sustained basis
- Significant improvement in its total debt to PBILDT below 4 times
- Gross working capital cycle below 180 days on sustained basis

Negative Factors

- Further adverse impact on the liquidity of the company owing to delay in ramping up of its turnover to envisaged levels, thereby leading to higher than presently envisaged losses
- Continued subdued performance arising from its inability to achieve meaningful improvement in its profitability margins
- Prolonged negative impact on the retail sector due to COVID-19 pandemic

Detailed description of the key rating drivers

Key Rating Strengths

Part of Ahmedabad based Arvind Lalbhai Group with experienced and qualified management

AFL is a part of the Ahmedabad based Arvind Lalbhai group which was founded by Late Mr. Kasturbhai Lalbhai in 1931. The group is a diversified conglomerate having presence in textile, apparel retailing, engineering, waste water treatment and real estate business. Arvind Limited (*Arvind; rated CARE AA-; Negative/ CARE A1+*), the flagship company of the group, is one of India's leading vertically integrated textile companies having presence of more than eight decades in the industry. Post its demerger from Arvind; AFL got separately listed on the stock exchanges on March 08, 2019. The Lalbhai family of Arvind is the largest shareholder in AFL while Multiples Private Equity fund managed by Ms. Renuka Ramnath; ex-MD & CEO of ICICI Ventures Ltd., holds more than 10% equity stake in the company which has further increased post the recently concluded rights issue.

Mr. Sanjay Lalbhai is the Chairman of AFL while his sons, Mr. Punit Lalbhai and Mr. Kulin Lalbhai, are non-Executive Directors on the Board of AFL. Mr. Jayesh Shah (Director and CFO of Arvind) is also a non-Executive Director on the Board of AFL. The management team of AFL includes Mr. Suresh Jayaraman (Managing Director and Chief Executive Officer (CEO)) and Mr. Pramod Gupta (Chief Financial Officer). Mr. Pramod Gupta is a seasoned business leader with over 30 years of experience in Finance & Supply Chain domains across diverse industries. Further, the board of AFL comprises of eminent industry experts such as Mr. Nilesh Shah, Mr. Vallabh Bhanshali and Ms. Nithya Easwaran.

Strong brand portfolio of own and licensed international apparel brands

AFL has a strong portfolio of own and licensed international apparel brands. The licenses are long term/perpetual in nature. The brand portfolio of AFL is broadly categorized as below:

Brand Category	Apparel Brands/Description
Power Brands	Arrow, Flying Machine, Tommy Hilfiger, U.S. Polo
Growth/Emerging Brands*	Aeropostale, Calvin Klein, Ed-Hardy, Hanes, The Children's Place (TCP)
Specialty Retail	GAP, Sephora, Unlimited (value retail format)

**Previously it also included apparel brands like Elle, Izod, Gant and Nautica; however, these have been discontinued during FY20*

AFL's brand portfolio is positioned across various price points and fashion styles although dominated towards casual wear. It also encompasses various segments like men's wear, women's wear, kids wear, inner wear, footwear, beauty and accessories; albeit it is skewed towards men's wear (~66% of its overall sales in FY20). During FY20, the company decided to discontinue some of its loss incurring growth/emerging brands i.e. Gant, Nautica, Elle and Izod. The process of closure of these brands has been completed in FY20. Going forward, the management of AFL plans to increase its sales in beauty brand, inner wear, footwear and kids wear segment in the medium term so as to improve its demographic presence. This is envisaged to sharpen its brand portfolio with focus on improving profitability. Moreover, the company has also forayed into masks, comfort-wear for work-from-home culture, in line with the current consumer requirements.

Wide distribution network with presence across multiple sales channels

AFL has a strong distribution network with 1,290 exclusive brand outlets (EBOs) and 3,700 key counters having total retail space of 20.73 lakh square feet (LSF) as on March 31, 2020. Revenue per square feet per day has remained moderate in the range of Rs.52-55/ per sq. ft. per day. AFL's brands are sold through multiple sales channels such as its retail store network, through wholesale to Multi Brand Outlets (MBO) and large departmental stores as well as through online retailers like Flipkart, Myntra and Amazon. Post witnessing growth till FY19, sales through online channel remained steady in FY20. However, online channel has been the fastest growing channel during the pandemic time due to the natural shift in consumer behaviour towards online channel from offline stores in order to avoid contracting the virus thereby increasing the reach of the brand portfolio of AFL and increasing its contribution to AFL's total sales. Further, sales mix was slightly skewed towards retail channel than wholesale channel during FY20 in line with management's step to reduce exposure to its long credit period wholesale customers. Post unlock, online channel has been the growth driver of the company witnessing fastest recovery in sales with 30% growth in overall online sales and 3.5 times in NNNow.com which is the company's own online portal. Further, to improve inventory management and turnaround time, AFL has started integrating its offline stores and warehouse inventory to NNNow.com and third party online platforms to create 'one-view of inventory' which refers to access to the inventory of all the stores apart from online inventory.

Performance of 'power' brands offsets the operating losses of 'growth/emerging brands', 'specialty retail' and 'Unlimited'

Power brands are the mature brands in the portfolio of AFL and continue to be the major revenue driver for the company. Further, higher growth momentum of some of the power brands especially U.S. Polo and Tommy Hilfiger has led to healthy PBILDT margin from these brands thus driving the overall profitability of AFL. However, during FY20, power brands registered y-o-y sales de-growth of 15%; albeit still having 62% contribution to its TOI. In addition to the COVID-19 impact, major de-growth in overall power brand sales was attributed to more than 35% de-growth in 'Arrow' brand. However, like-to-like store sales growth of power brand was at 1.50% contributed mainly by U.S. Polo and Tommy Hilfiger which has grown consistently over the past years ended FY20. Further, the management has taken steps to revive the sales of 'Arrow' through renewed marketing campaign by signing Hrithik Roshan as the brand ambassador, changing its offering with launch of premium range, expansion of Arrow New York modern line and relaxed work wear offerings 'Arrow Sport' along with redesigning the retail outlets to drive its future growth and profitability. Further, the performance of other power brands like Tommy Hilfiger, Flying Machine and US Polo continue to remain relatively steady. Growth brands are the emerging brands in AFL's portfolio with growth rate of 5-10%; albeit incurring losses at PBILDT level. Specialty retail too continued to incur losses largely due to subdued performance of its value retail format 'Unlimited' which offset the growth in sale of 'GAP' and 'Sephora'. These two segments together contributed ~40% of TOI of AFL during FY20 with net sales of Rs.1,486 crore (FY19: Rs.1,847 crore, including the discontinued brands). Going forward, sustained turnaround of Growth brands and Specialty retail (especially Unlimited) within envisaged time frame will be crucial for improving the overall profitability of AFL.

Improvement in net worth base post rights issue and strategic stake sale

Financial flexibility of AFL has improved post listing of its equity shares on March 08, 2019. The tangible net worth base of AFL stood at Rs.487 crore as on March 31, 2020 as against Rs.1,057 crore as on March 31, 2019 on account of huge net loss of Rs.399 crore incurred by it in FY20 and one time impact of adoption of IND-AS 116 for accounting of operating lease w.e.f. April 01, 2019. As per the requirement of IND-AS 116, the company has recognized large size lease repayment obligation to the extent of Rs.918 crore along with recognition of corresponding assets of Rs.734 crore as on March 31, 2020. The difference between right to use asset and the lease liability of Rs.138 crore (net of tax) is adjusted against the reserves thereby eroding its net worth to that extent. However, the net worth base is expected to improve in FY21 backed by equity infusion of Rs.400 crore by way of rights issue and Rs.260 crore from sale of significant minority stake in its step-down subsidiary AYB to FG in July 2020. The said cash flow provides significant cushion to liquidity of the company especially in the light of challenging operating environment. Moreover, AFL also has flexibility for fund raising through monetization of its right in own brands/licensed brands in light of strong portfolio of remaining brands.
However, despite weak profitability during FY20, the cash flow from operations remained moderate at Rs.69 crore due to reduction in elongated debtors; although the same remained lower than envisaged on account of high inventory at the end of the year due to COVID-19 impact in March'2020. Further, the management has articulated that the proceeds from the rights issue have been largely utilized towards reduction in the company's debt level and stretched creditors in August 2020. The promoters have articulated their strong commitment to further support the operations of AFL which is also reflected from their higher subscription in AFL's rights issue which increased promoter holding to 39.74% in July 2020 from 35.58% in June 2020.

Key Rating Weaknesses

Significant deterioration in financial performance during FY20 and expectation of further weak performance in FY21 due to COVID-19

During FY20, TOI of AFL de-grew by 16% to Rs.3,922 crore, (including Rs.53 crore of gain on lease reassessment) largely on account of discontinuation of non-strategic and non-profitable brands, curtailing its sales in the wholesale channel coupled with overall consumption slowdown in the economy. Additionally, sales were largely affected due to outbreak of COVID-19 in the last quarter of FY20. During FY20, on a consolidated basis, AFL incurred a net loss of Rs.399 crore as against net profit of Rs.21.48 crore during FY19. The subdued profitability during FY20 was on account of a mix of subdued operating performance amidst broader consumption slow-down in the economy, losses on discontinued brands and COVID-19 impact. The company faced challenges in its key brand, Arrow, where there was major de-growth in revenue that, in turn, impacted profitability of power brands. Operational loss of Rs.68 crore (provided in Q1FY20) was incurred on discontinued brands towards inventory write-downs, loss arising from store closure and royalty settlements with principals. In addition to direct revenue and EBITDA losses in Q4FY20 on account of COVID-19, extraordinary loss of Rs.61 crore was provided in Q4FY20 towards additional provisions arising out of COVID-19 disruption. Furthermore, PBILDT of its hitherto highly profitable 'power' brands also registered significant reduction on account of the management's decision to reduce exposure to long credit period customers in its wholesale channel wherein the company sells through its multi-brand outlets. Its 'Unlimited' segment continued to incur higher losses than envisaged impacting the overall profitability of the company. Further, during Q1FY21, revenue and profitability were significantly impacted by COVID-19 induced lockdown as evident by TOI of Rs.171 crore (including lease concession of Rs.66 crore) and net loss of Rs.213 crore. Moreover, due to net and cash loss incurred by the company during FY20 and Q1FY21, the debt coverage indicators deteriorated significantly during the same period. Going forward, CARE expects the recovery to be slow and gradual thereby leading to a weak operational as well as financial performance of the company in FY21.

Continuous requirement of cash outlay for expanding its retail presence; albeit curtailing the same to preserve cash during the pandemic

Being in the retail business, AFL has to continuously invest in order to revamp its existing stores as well as for opening of new stores. However, management has adopted a cautious approach towards opening/closing of stores which has been reflected from moderate level of capex incurred during past five years ended FY20. Further, the management has not planned any major capex in FY21 on account of disruption of operations due to outbreak of COVID-19. Also, most of the store expansion going forward is planned to be done through franchisee route, thereby further reducing capex requirements. Going forward, realization of envisaged benefits from completed capex along with lower gestation period of newly opened stores will also be crucial for the overall performance of the company.

Highly competitive branded apparel retail industry which puts pressure on profitability margins; albeit strong brand portfolio of AFL alleviates competition to a certain extent

Apparel retail sector in India is highly competitive with presence of many domestic and international brands as well as foray of large corporates like TATA group, Reliance group and Aditya Birla group into apparel retail segment. AFL faces tough competition from the private label brands of its established distributors. However, large expansion by retailers lead to pressure on their PBILDT margin as earnings from existing stores do not adequately offset gestation losses from high proportion of new stores added. A strong brand portfolio with some of the leading brands, coupled with growing online sales could help AFL in dealing with the increasing competition.

Medium-term consumption slow-down in the economy accentuated by the outbreak of COVID-19 crisis; albeit good long-term growth prospects of branded apparel business

India's GDP contracted by -23.9% in Q1FY21 which is the worst decline in decades. Private consumption which is a driver of the economy (accounting for around 60% of the GDP) witnessed a notable decline in Q1FY21 by 27% from Q1FY20. Moreover, the nationwide lockdown imposed by the government from end-March 2020 till May 31, 2020 for controlling the outbreak of COVID-19 is expected to have adverse impact on the retail industry as the non-essential establishments remained closed which almost stopped the business operation of the retail industry. Fashion and lifestyle segment of the retail industry is likely to suffer to a greater extent due to the shutdown and consumer spending on such items taking a backseat during such times. Further, the restrictive measures for containment of the virus, the overall lower income levels due to higher unemployment and the sharp global economic slowdown is expected to constrain consumption demand. The cash inflow of the retail industry came to a standstill during the lockdown period, and despite significant one-time actions to manage the negative impact on profitability and cash-flows, significant losses were incurred during this period. Even after the staggered opening of malls and stores from June 2020; while sales are expected to improve during Q3FY21 as the festive season arrives, demand is not expected to reach pre-COVID levels during FY21 as people are likely to curtail their discretionary spending with reduced income as well as tendency to preserve cash. Also, retailers may have to extend heavy discounts or extend the sale period to clear the piled-up inventory, thereby impacting their profitability. Furthermore, there is a likely shift in consumer preference towards online channels in order to avoid crowded spaces. In such times, apparel retailers with omni-channel presence and those with access to support from strong parents or groups will be better placed to counter the challenging business environment. AFL having presence across offline and online channels is expected to fare relatively better which would aid faster recovery once the COVID-19 pandemic subsides.

Negative impact of COVID-19 pandemic; albeit mitigating steps planned by AFL's management towards cost rationalization

In view of the lowering of the discretionary spending by the consumers in these times of economic downturn, the outlook for the Indian players in retail sector is 'Negative' in the short to medium term. The impact on demand, which is expected to remain muted at least for the next three or four quarters, will be more in case of players with presence in non-essential items and luxury segments. However, rental waivers from the mall-owners and rationalization of selling and general expenses have helped the retailers to bring down their fixed costs thereby reducing the impact on their credit profile to an extent. On the other hand, a faster reversal to normalcy may contain the extent of likely deterioration, and may actually help in the longer run as the retailers benefit from the reduced cost base.

The widespread disruption brought about by the outbreak of COVID-19 pandemic across the globe has also adversely impacted the performance of many retailing companies including AFL. However, AFL's management has taken various steps to reduce its cost and augment liquidity. The company is also conserving cash by rationalizing its inventory purchase, reducing workforce, salary cuts, and other establishment costs, apart from cutting marketing and deferring capital expenditure (capex) outlay. The company reduced its overhead costs by 63% and 57% in Q1FY21 on y-o-y and q-o-q basis respectively. Moreover, the company further plans to bring down the cost structure by 35-40% by end of March 2021 as compared with March 2020; Rs.120 -150 crore of such overhead cost reduction is structural in nature and is envisaged to sustain.

Liquidity: Adequate

Operations of AFL are highly working capital intensive due to requirement of large inventory holding in its retail business and significant build-up of receivables in its wholesale/online channels. Working capital borrowing of AFL increased during FY20 mainly on account of increase in its inventory holding period which increased substantially at the end of March'20 due to COVID-19 impact. Liquidity of the company was characterized by low cash flow and high average utilization of fund based working capital limits at around 90-95% for the past 12 months ended July 2020.

Despite closure of stores resulting in significant weakening of cash flows amidst lockdown, liquidity of the company at a consolidated level has remained adequate in light of the moratorium availed by AFL on its debt obligations for the period of March-August 2020, as a COVID relief measure and sanction of COVID-19 emergency credit lines granted by the lenders. Furthermore, proceeds from the rights issue and stake sale proceeds aggregating to Rs.660 crore during July 2020 provided the required liquidity cushion. The proceeds have been utilized mainly towards the debt reduction, payment to creditors and balance to fund the losses of the company. Further, management has taken various steps including the deferment/ staggered buying of inventories to conserve liquidity. Despite expected losses in FY21, the management expects to generate cash flow from operation of around Rs.300 crore through release of funds from gross working capital which shall also provide liquidity cushion. The company, at a consolidated level, has liquidity buffer available in the form of undrawn working capital limits of around 30-40% at the end of July 2020 due to reduction in bank borrowings through the funds infused in AFL vide the above-mentioned non-debt proceeds. The company has already reduced the gross working capital by Rs.130 crore till June 2020. Further, the company has relatively moderate term debt repayment obligation of around Rs.33 crore (post moratorium) due in FY21. CARE also factors in the promoters' strong commitment to provide need-based support to the company in case of any exigency.

Analytical Approach: Consolidated. CARE has considered the consolidated financials of AFL for its analytical purpose, which includes the financials of its subsidiaries/JVs. The list of subsidiaries/JVs consolidated in AFL is placed in **Annexure-3**.

Applicable Criteria:

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology - Organized Retail Companies
Rating Methodology - Wholesale Trading
Financial ratios – Non-Financial Sector
Rating Methodology: Consolidation and Factoring Linkages in Ratings
Liquidity Analysis of Non-Financial Sector Entities

About the company

AFL was incorporated in January 2016, as Arvind J&M Limited and its name was changed to AFL in October 2016. It is a part of Ahmedabad based Lalbhai group and earlier used to be a 90% subsidiary of Arvind with the balance stake being held by Multiples Private Equity Fund. Post business restructuring undertaken within Arvind group, AFL got demerged and was separately listed company on the stock exchange on March 08, 2019. Shareholders of Arvind became shareholders of AFL post demerger. AFL, through its two wholly owned subsidiaries, two joint ventures (JVs) and two step-down subsidiaries, is engaged in the wholesaling and retailing of several owned and licensed branded apparels in India. However, its wholly-owned subsidiary, ALBL, has major contribution to AFL's consolidated revenue, profitability and debt profile.

Brief details of business conducted by AFL and its subsidiaries/JVs:

Company Name	Business activities
AFL	Wholesale of licensed brands - (i.e. Arrow), and own brand (i.e. Flying Machine brand: the effective date of transfer to AYB was July 01, 2020 and date of signing the agreement for sale was July 08, 2020)).
Arvind Lifestyle Brands Limited - 100% subsidiary of AFL	Wholesale and retailing of various international licensed brands. Retailing of Arrow and Flying Machine (for Flying Machine brand, the effective date of transfer to AYB was July 01, 2020 and date of signing the agreement for sale was July 08, 2020) and Value retail format stores - 'Unlimited'
Arvind Beauty Brands Retail Private Limited (ABBRPL) - 100% subsidiary of AFL	Retailing of beauty products under 'Sephora'
Tommy Hilfiger Arvind Fashion Private Limited (THAFPL; rated CARE A; Negative) - 50% JV between AFL and PVH Corp, USA	Wholesale and retailing of 'Tommy Hilfiger' branded apparels, accessories
Calvin Klein Arvind Fashion Private Limited (CKAFPL) - 50% JV between AFL & PVH Corp, USA	Wholesale and retailing of 'Calvin Klein' branded apparels, accessories
Arvind Youth Brands Private Limited (AYB) - Significant minority stake by Flipkart Group)	Wholesaling and Retailing of own brand - Flying Machine w.e.f. July 01, 2020 and date of signing the agreement for sale was July 08, 2020.
Value Fashion Retail Limited - Held by ALBL	Non-operational

AYB, incorporated on February 27, 2020, is engaged in the business of wholesale and retail trading of "Flying Machine" brand. The Flipkart Group invested Rs.260 crore to purchase significant minority stake in AYB. The National Company Law Tribunal (NCLT), vide its order dated July 14, 2020 has also approved the scheme of amalgamation for two of its JVs i.e. THAFPL with CKAFPL which was later filed with Ministry of Corporate Affairs (MCA) on September 14, 2020 (i.e. since the scheme legally became applicable). The scheme has become effective with appointed date i.e. April 01, 2019. Post amalgamation, the name of CKAFPL is rechristened to PVH Arvind Fashion Private Limited w.e.f. September 09, 2020.

(Rs. Crore)

Brief Financials of AFL (Consolidated)	FY19 (A)	FY20 (A)^
Total Operating Income	4,646	3,922
PBILDT	296	292
PAT	21	(399)
Overall Gearing (times)	0.81	4.46 @
Adjusted Overall Gearing excluding lease liability (times) #	-	*2.00*
Interest Coverage (times)	2.25	0.99

A: Audited; ^Post implementation of IND-AS 116; @ including lease liability

As per published results for Q1FY21, AFL incurred a net loss of Rs.213 crore on a TOI of Rs.170 crore as against net loss of Rs.95 crore on a TOI of Rs.902 crore in Q1FY20.

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 4

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	-	-	-	130.00	CARE A-; Negative / CARE A2+
Fund-based - LT-Term Loan	-	-	March 2025	18.20	CARE A-; Negative
Non-fund-based - ST-Working Capital Limits	-	-	-	90.00	CARE A2+

Annexure-2: Rating History of last three years

Sr. No.	Name of the 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	LT/ST	130.00	CARE A-; Negative/ CARE A2+	1)CARE A-; Negative / CARE A2+ (30-Apr-20)	1)CARE A-; Stable / CARE A2+ (20-Feb-20) 2)CARE A; Negative / CARE A1 (15-Oct-19) 3)CARE A; Negative / CARE A1 (20-Sep-19)	1)CARE A+; Stable / CARE A1+ (02-Aug-18)	-
2.	Fund-based - LT-Term Loan	LT	18.20	CARE A-; Negative	1)CARE A-; Negative (30-Apr-20)	1)CARE A-; Stable (20-Feb-20) 2)CARE A; Negative (15-Oct-19)	-	-
3.	Non-fund-based - ST-working capital limits	ST	90.00	CARE A2+	1)CARE A2+ (30-Apr-20)	1)CARE A2+ (20-Feb-20) 2)CARE A1 (15-Oct-19)	-	-
4.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST	-	-	-	1)CARE AA- (CE); Stable / CARE A1+ (CE) (20-Sep-19) 2)Withdrawn (20-Sep-19)	1)CARE AA (SO); Stable / CARE A1+ (SO) (03-Dec-18)	1)CARE AA (SO); Stable / CARE A1+ (SO) (16-Nov-17) 2)CARE AA (SO); Stable / CARE A1+ (SO) (04-Oct-17)
5.	Fund-based - LT-Working Capital Limits	LT	-	-	-	1)Withdrawn (20-Sep-19)	1)Provisional CARE AA (SO); Stable (03-Dec-18)	1)Provisional CARE AA (SO); Stable (16-Nov-17) 2)Provisional CARE AA (SO); Stable (04-Oct-17)
6.	Non-fund-based - ST-	ST	-	-	-	1)Withdrawn (20-Sep-19)	1)Provisional CARE A1+	1)Provisional CARE A1+

Sr. No.	Name of the 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
	Letter of credit						(SO) (03-Dec-18)	(SO) (16-Nov-17) 2)Provisional CARE A1+ (SO) (04-Oct-17)
7.	Commercial Paper	ST	-	-	-	1)Withdrawn (21-Aug-19)	1)Provisional CARE A1+ (SO) (03-Dec-18)	1)Provisional CARE A1+ (SO) (16-Nov-17) 2)Provisional CARE A1+ (SO) (04-Oct-17) 3)Provisional CARE A1+ (SO) (01-Aug-17)

Annexure-3: List of Subsidiaries/JVs of AFL

Name of the Company	% of holding held by AFL as on March 31, 2020	Consolidation
Arvind Lifestyle Brands Limited	100%	Fully Consolidated
Arvind Beauty Brands Retail Private Limited	100%	Fully Consolidated
Tommy Hilfiger Arvind Fashion Private Limited (JV) @	50%	Fully Consolidated
Calvin Klein Arvind Fashion Private Limited (JV) @	50%	Fully Consolidated
Arvind Youth Brands Private Limited*	100%	Fully Consolidated
Value Fashion Retail Limited**	100%	Fully Consolidated

**Majority owned subsidiary of Arvind Lifestyle Brands Limited; ** Held by Arvind Lifestyle Brands Limited*
@The National Company Law Tribunal (NCLT), vide its order dated July 14, 2020 has approved the scheme of amalgamation of THAFPL with CKAFPL which was later filed with Ministry of Corporate Affairs (MCA) on September 14, 2020 (i.e. since the scheme legally became applicable). The scheme has become effective with appointed date i.e. April 01, 2019. Post amalgamation, the name of CKAFPL is rechristened to PVH Arvind Fashion Pvt. Ltd. w.e.f. September 09, 2020.

Annexure-4: Complexity level of the rated instruments

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

Contact Us

Media Contact
Mr. Mradul Mishra
Contact No.: +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Mr. Krunal Modi
Contact No.: 079-40265614/+91-8511190084
Email ID – krunal.modi@careratings.com

Relationship Contact
Mr. Deepak Prajapati
Contact No.: +91-79-4026 5656
Email ID – deepak.prajapati@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**