CARE Ratings
Professional Risk Opinion

CARE/ARO/RL/2018-19/2120-A

Mr.Jayesh Shah
Director and Group Chief Financial Officer
Arvind Limited
Naroda Road,
Ahmedabad-380025

December 03, 2018

Dear Sir,

Credit rating for the bank facilities of Rs.2,796.01 crore, non-convertible debentures of Rs.200.00 crore and commercial paper of Rs.700.00 crore

Please refer to our letter no. '**CARE/ARO/RL/2018-19/2120**' dated November 28, 2018 on the above subject.

2. The Press Release for the rating is attached as an **Annexure - I**.

3. We request you to peruse the annexed document and offer your comments, if any.

If you have any further clarifications, you are welcome to approach us.

Thanking you,
Yours faithfully,

Akhil Goyal
Sr. Manager
Akhil.goyal@careratings.com

Encl.: As above

Press Release
Arvind Limited

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	832.00 *(enhanced from Rs.591.18 crore)*	**CARE AA; Stable (Double A; Outlook: Stable)**	Reaffirmed
Long/Short-term Bank Facilities	1,223.00	**CARE AA; Stable/CARE A1+ (Double A; Outlook: Stable)/ A One Plus)**	Reaffirmed
Short-term Bank Facilities	741.01 *(enhanced from Rs.482.22 crore)*	**CARE A1+ (A One Plus)**	Reaffirmed
Total Facilities	**2,796.01 (Rupees Two Thousand Seven Hundred Ninety Six Crore and One Lakh Only)**		
Commercial Paper (CP) (Carved Out of sanctioned working capital limits)	100.00	**CARE A1+ (A One Plus)**	Reaffirmed
CP (Standalone)	600.00	**CARE A1+ (A One Plus)**	Reaffirmed
Total CP	**700.00 (Rupees Seven hundred crore only)**		
Non-convertible debenture	**200.00 (Rupees Two Hundred Crore only)**	**CARE AA; Stable (Double A; Outlook: Stable)**	Reaffirmed

Details of facilities/instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE Ratings takes into cognizance the approval received by Arvind Limited (Arvind) from National Company Law Tribunal (NCLT) to de-merge its branded apparel and engineering undertakings which were previously housed under its different subsidiaries into separately listed companies on the stock exchanges, namely Arvind Fashions Limited (AFL) and The Anup Engineering Limited (Anup) respectively. The record date for the de-merger is November 29, 2018 and listing of shares of AFL and Anup is expected during Q4FY19 which is envisaged to enhance the financial flexibility of Arvind group. However, various corporate guarantees extended by Arvind for the loans/instruments raised by AFL and AFL's subsidiary Arvind Lifestyle Brands Ltd (ALBL) continue to remain in place and hence Arvind is contractually bound to extent support towards guaranteed/with recourse nature of debt in AFL and ALBL.

The rating of Arvind continues to take into account the vast experience of promoters in textile business, coupled with its long-standing operational track record as an integrated textile manufacturer having presence across the textile value chain and gradual diversification in its revenue mix with increasing contribution of shirting fabric, garmenting and advanced material in its sales thereby reducing its dependence on the cyclical denim business. The rating also factors increase in its scale of operations during FY18 (refers to the period from April 01 to March 31) with stable cash accruals, moderate leverage and debt coverage indicators; albeit with moderation in the performance of textile division and moderate operating profitability during the year. The rating also takes note of

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

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the gradual ramp up and turnaround of the water treatment business housed under one of its subsidiaries; albeit with demerger of AFL, the revenue diversity derived from its brand & retail business would not be available to Arvind. The rating of Arvind, however, continues to remain constrained on account of the increasing working capital intensity of its operations, susceptibility of its profitability to inherent volatility associated with the cotton prices and foreign exchange fluctuation as witnessed during FY18, continued losses in e-commerce segment considering its nascent stage and its presence in the cyclical and competitive textile/apparel industry.

Arvind's ability to increase sales from garmenting, advanced material and water treatment businesses as envisaged so as to maintain the growth momentum in its total operating income (TOI) while efficiently managing raw material price volatility and working capital requirement along with improvement in its profitability, leverage and debt coverage indicators would be the key rating sensitivities. Further, rationalization of short-term working capital borrowings by augmenting long term sources of funds as envisaged shall also remain crucial from the credit perspective.

Detailed description of the key rating drivers

Key Rating Strengths

Wide experience of the promoters in textile industry along with competent management

Arvind, the flagship company of Ahmedabad based Lalbhai group, is currently led by next generation entrepreneurs of the Lalbhai family under the leadership of Mr Sanjay Lalbhai. Mr Sanjay Lalbhai, aged 67 years, is the *Chairman and Managing Director* of Arvind and looks after the overall operations of the company and has a total work experience of nearly 35 years. Further, his sons, Mr. Punit Sanjay Lalbhai and Mr. Kulin Sanjay Lalbhai, have also been inducted on the Board as Executive Directors. Mr. Jayesh Shah, *Whole-time-Director and CFO*, is a Chartered Accountant with total work experience of over two decades and looks after the finance function. Further, Arvind's Board comprises of eminent industry experts and professionals. The management team of Arvind also consists of experienced professionals who have guided the company successfully through various economic cycles.

Diversified revenue stream and product portfolio along with vertical integration

Arvind has significantly diversified its revenue stream across different segments over the past few years. Further, Arvind's textile business operations are vertically integrated across the complete value chain from fabric to garments to retail; albeit its branded retail business will now only be its group company. This integrated setup gives Arvind operational flexibility and ability to rationalize costs by managing dependence on outsourced vendors.

Arvind's current revenue profile can be segmented as: textiles (denim, woven, voiles, knits, garments and retail fabric), advanced material, Arvind internet and waste water treatment business (housed under subsidiary - Arvind Envisol Limited – AEL). Although, currently textile division continues to be the major revenue driver for the company, Arvind has increased its focus towards advanced materials and has gradually scaled up its water treatment business as well which is envisaged to maintain diversity in the revenue profile of Arvind. Furthermore, in textile segment Arvind has increased its focus on garmenting in order to reduce its dependence on cyclical denim business.

Moderate performance of textile division

The textile segment registered a moderate growth of 7% during FY18, on account of muted growth of 3-4% in denim, woven and voiles segment. However, the same was compensated by growth in revenue from its garmenting segment which registered healthy y-o-y growth of 15% to Rs.1,293 crore during FY18 as compared to sales of Rs.1,125 crore during FY17. The overall operating profitability of textile segment moderated during FY18 on account of the adverse foreign exchange rate movements, reduction in export incentives due to reduction in duty draw back rates post implementation of GST and impact of price fluctuation on high cost cotton inventory. During H1FY19, textile division

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registered a minor growth of 4% to Rs.3,049 crore on account of growth in woven and garmenting segments. Going forward, gradual ramp up of garmenting capacities and consequent increase in sales from the textile segment as envisaged shall remain crucial.

Steady increase in the scale of operations along with moderate profitability of its de-merged brands and retail business segment wherein Arvind has extended corporate guarantee for its debt

The sales from brands and retails business has grown steadily from Rs.2,674 crore during FY16 to Rs.3,786 crore during FY18 on account of the sustained growth momentum in power brands and addition of new brands in growth and specialty segment. The PBILDT margin of the segment although improved from 3.74% during FY17 it continued to remain moderate at 6.10% during FY18 on account of continued underperformance of growth brand, specialty retail and unlimited. Further, PBILDT margins were also impacted during FY18 on account of the one-time impact due to GST implementation. Adjusting for the one-time impact of GST, the PBILDT margin of AFL stood at 7.10% during FY18. During H1FY19, brands & retail business registered a healthy y-o-y growth of 17% to Rs.2,096 crore as compared to sales of Rs.1,793 crore during H1FY18. However, the PBILDT margins continued to remain moderate at 5.5%. Going forward, sustained improvement in the profitability through envisaged turnaround of other brand segments while continuing the good performance of its power brand shall remain crucial. Arvind's corporate guarantee extended for debt availed by AFL and ALBL continues to remain in force even after their de-merger; hence Arvind is contractually bound to support their debt servicing (if required).

Continued growth in its scale of operations along with steady cash accruals, moderate leverage and debt coverage indicators; albeit with moderation in its operating profitability during FY18

The total operating income (TOI) of Arvind on a consolidated basis registered a y-o-y growth of 17.42% during FY18 led by strong growth in brands & retail segment and moderate growth in textile segment. Despite increase in the scale of operations, the PBILDT margin of the company moderated to 9.56% during FY18 as against 10.86% during FY17 on account of higher cotton prices, appreciation of rupee against USD and reduction in the duty drawback rates post implementation of GST. However, reduction in its interest cost led to stable cash accruals of Rs.625 crore during FY18. Further, the capital structure and debt coverage indicators of the company remained moderate during FY18.

Favorable prospects for Indian apparel and garment segment of the textile industry

Indian Apparel (Garment) is the largest segment of the Indian Textile and Clothing Industry (IT&C); accounts 60-65% of the total Industry. Further, it is one of the largest sources of foreign exchange flow into the country. Moreover, the share of India is nearly 3%-4% in the total apparel exports of the world as against 38% share of China as on 2016. With increasing labour cost in China, the demand is expected to shift to Bangladesh, India, Vietnam, etc. Further, various policy initiatives by State Government such as payroll assistance of up to 50% for employees, interest subsidy, special concession in power tariff, etc are expected to provide boost to garmenting sector. Arvind is also setting up garment manufacturing unit at Ethiopia in light of tax benefits on exports from there to USA.

Key Rating Weaknesses

Liquidity analysis

Operations of Arvind are working capital intensive marked by operating cycle of around 76 days during FY18 (FY17: 78 days). The gross operating cycle (average collection plus inventory period) of Arvind increased to 142 days during FY18 from 135 days during FY17 mainly on account of increase in trade receivables largely from brands & retail business and water treatment business. The incremental working capital requirement was largely funded through increase in creditors and reliance on external working capital bank borrowing. The working capital intensity further

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increased during FY18 post implementation of GST on account of delay in refund of input tax credit. Further, Arvind reported healthy cash flow from operations of Rs.428.49 crore during FY18. The average utilization of the fund based working capital limits remained at 94% for the past twelve months ended September 2018. Current ratio also remained moderate due to higher proportion of short-term working capital bank borrowing in its overall debt. Arvind has recently received sanction of term debt of Rs.290 crore of which debt to the tune of Rs.200 crore shall be utilized towards reimbursement of the capex already incurred by it which in turn is envisaged to reduce the working capital bank borrowings as indicated by management.

Ability of the company to efficiently manage its working capital requirement going forward shall remain key rating sensitivity. Further, reduction in the external working capital borrowings as envisaged shall also remain crucial from the credit perspective.

Working capital intensive nature of operations of brands and retail business

Operations of brands and retails are inherently working capital intensive due to requirement of large inventory holding in its retail business. Moreover, working capital borrowing of the segment increased during FY18 on account of elongation in its receivables. Credit cycle was also affected due to GST implementation, increase in online sales during Q4FY18 and lagging effect of demonetization. Incremental working capital requirement was funded through increase in bank borrowing, equity infusion and increase in creditors. Ability to improve collection efficiency in this business segment within stipulated time frame shall remain crucial.

Vulnerability of profitability to volatility in cotton prices and foreign exchange fluctuation

Cotton and cotton yarn are the key raw materials for Arvind. Being agriculture based input; the operations of Arvind are vulnerable to its inherent risks associated with agri-based inputs prices.

Arvind also earns nearly 25%-30% of its revenue from the export market whereas import on the other side is negligible. Hence, Arvind is a net exporter and is exposed to adverse fluctuation in foreign currency exchange rates.

Highly competitive and cyclical retail apparel and textile industry

Textile industry is highly competitive and cyclical in nature having few large players and several unorganized regional players. Though Indian apparel industry provides strong opportunity to grow, it is highly competitive marked by presence of some of the large corporate groups. Further, extent of competition has increased due to deep discounting offered by online rivals like Flipkart, Amazon etc. and entry of large global apparel chain in domestic market through joint venture with domestic companies Moreover, growth of the Indian apparel sector is closely linked to the growth of the economy and hence any downturn in economic environment may also slow down the demand for branded apparel in light of discretionary nature of spending on these products.

Analytical approach: Arvind has de-merge its branded apparel business (housed under-'Arvind Fashions Limited'-AFL and AFL's step down subsidiaries- 'Arvind Lifestyle Brands Limited'-ALBL; 'Arvind Beauty Brands Private Limited'-ABBPL; 'Calvin Klein Arvind Fashion Private Limited'-CKAFPL; and 'Tommy Hilfiger Arvind Fashions Private Limited'-THAFPL) and engineering business (housed under -'The Anup Engineering Limited'-Anup). The record date for the same is November 29, 2018 post which these companies would no longer remain subsidiaries of Arvind; also separate listing of AFL and Anup on the stock exchanges is expected by Q4FY19. However, various corporate guarantees extended by Arvind for the loans/instruments raised by AFL and AFL's subsidiary ALBL continues to remain in place.

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Hence, for analyzing Arvind, CARE has changed its analytical approach from the earlier 'Arvind Consolidated' to 'Arvind De-merged Company Consolidated' while factoring in the support which Arvind is contractually bound to extent towards guaranteed/with recourse nature of debt in AFL and ALBL. The list of subsidiaries, step-down subsidiaries and joint ventures included in Arvind de-merged consolidation is placed as **Annexure-3.**

Applicable Criteria

Criteria on assigning Outlook to Credit Rating
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial Ratios-Non Financial Sectors
Rating Methodology Manufacturing Companies
Factoring Linkages in the Rating

About the Company

Arvind, the flagship company of Ahmedabad-based Lalbhai group which was founded by the Late Mr Kasturbhai Lalbhai in 1931, is a diversified conglomerate having presence in textiles, apparel retailing, engineering and real estate businesses amongst others. Arvind is one of India's leading vertically integrated textile companies with presence of more than eight decades in the industry. Arvind is amongst the largest denim and woven fabric manufacturers with an installed capacity of 108 million meters per annum (MMPA) and 132 MMPA respectively as on March 31, 2018. Apart from denim and woven fabrics, Arvind also manufactures a range of cotton shirting, knits and bottom weights (Khakis) fabrics. Recently, Arvind has also forayed in to technical textiles on its own and in joint venture with leading global players. Arvind, through its subsidiary 'Arvind Envisol Limited' (AEL) is engaged in assembling and installation of waste water treatment plants.

'Arvind Fashions Limited' (AFL) which has demerged from Arvind, is engaged in wholesaling and retailing of various well-known international and owned apparel brands in India. However, the debt in AFL and its subsidiary ALBL continues to be 'with recourse' to Arvind.

Particulars	**Consolidated**		**Standalone**	
Brief Financials (Rs. Crore)	**FY17 (A)**	**FY18 (A)**	**FY17 (A)**	**FY18 (A)**
Total operating income (TOI)	9,304	10,877	6,045	6,408
PBILDT	1,011	1,040	799	626
PAT	321	316	19	250
Overall Gearing (times)	0.85	1.01	0.83	0.91
Interest coverage (times)	3.24	3.71	3.35	3.25

A: Audited;

As per provisional H1FY19 results (refers to the period from April 01 to March 31), Arvind reported income from continuing operations of Rs.3, 640 crore (H1FY18: Rs.3, 300 crore) and profit after tax (PAT) from continuing business of Rs.131 crore (H1FY18: Rs.125 crore).

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not Applicable

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

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

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

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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
Term Loan-Long Term	-	-	September 2022	776.31	CARE AA; Stable
Fund-based - ST-PC/Bill Discounting	-	-	-	90.00	CARE A1+
Term Loan-Long Term	-	-	September 2022	55.69	CARE AA; Stable
Non-fund-based - ST-BG/LC	-	-	-	651.01	CARE A1+
Fund-based - LT/ ST-CC/PC/Bill Discounting	-	-	-	1223.00	CARE AA; Stable / CARE A1+

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures	August 16, 2017	8.00	September 09, 2021	100.00	CARE AA; Stable
Debentures-Non Convertible Debentures	September 22, 2017	7.79	September 29, 2022	100.00	CARE AA; Stable
Commercial Paper-Commercial Paper (Standalone)	-	-	7-364 days	600.00	CARE A1+
Commercial Paper-Commercial Paper (Carved out)	-	-	7-364 days	100.00	CARE A1+

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Term Loan-Long Term	LT	776.31	CARE AA; Stable	-	1)CARE AA; Stable (15-Nov-17) 2)CARE AA; Stable (28-Sep-17)	1)CARE AA; Stable (02-Mar-17) 2)CARE AA- (05-Aug-16)	1)CARE A+ (14-Oct-15)
2.	Fund-based - ST-PC/Bill Discounting	ST	90.00	CARE A1+	-	1)CARE A1+ (15-Nov-17) 2)CARE A1+ (28-Sep-17)	1)CARE A1+ (02-Mar-17) 2)CARE A1+ (05-Aug-16)	1)CARE A1+ (14-Oct-15)
3.	Term Loan-Long Term	LT	55.69	CARE AA; Stable	-	1)CARE AA; Stable (15-Nov-17) 2)CARE AA; Stable (28-Sep-17)	1)CARE AA; Stable (02-Mar-17) 2)CARE AA- (05-Aug-16)	1)CARE A+ (14-Oct-15)
4.	Non-fund-based - ST-BG/LC	ST	651.01	CARE A1+	-	1)CARE A1+ (15-Nov-17) 2)CARE A1+ (28-Sep-17)	1)CARE A1+ (02-Mar-17) 2)CARE A1+ (05-Aug-16)	1)CARE A1+ (14-Oct-15)
5.	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	1223.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (15-Nov-17) 2)CARE AA; Stable / CARE A1+ (28-Sep-17)	1)CARE AA; Stable / CARE A1+ (02-Mar-17) 2)CARE AA- / CARE A1+ (05-Aug-16)	1)CARE A+ / CARE A1+ (14-Oct-15)

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Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
6.	Commercial Paper-Commercial Paper (Standalone)	ST	600.00	CARE A1+	1)CARE A1+ (03-Jul-18)	1)CARE A1+ (15-Nov-17) 2)CARE A1+ (28-Sep-17)	1)CARE A1+ (02-Mar-17) 2)CARE A1+ (05-Aug-16)	1)CARE A1+ (14-Oct-15) 2)CARE A1+ (27-May-15)
7.	Commercial Paper-Commercial Paper (Carved out)	ST	100.00	CARE A1+	1)CARE A1+ (03-Jul-18)	1)CARE A1+ (15-Nov-17) 2)CARE A1+ (28-Sep-17)	1)CARE A1+ (02-Mar-17) 2)CARE A1+ (05-Aug-16)	1)CARE A1+ (14-Oct-15) 2)CARE A1+ (27-May-15)
8.	Debentures-Non Convertible Debentures	LT	100.00	CARE AA; Stable	-	1)CARE AA; Stable (15-Nov-17) 2)CARE AA; Stable (28-Sep-17) 3)CARE AA; Stable (01-Aug-17)	-	-
9.	Debentures-Non Convertible Debentures	LT	100.00	CARE AA; Stable	-	1)CARE AA; Stable (15-Nov-17) 2)CARE AA; Stable (28-Sep-17)	-	-

Annexure-3: List of subsidiaries, step down subsidiaries and joint ventures of Arvind getting consolidated

Sr. No	Name of the company	% holding by Arvind	Sr. No	Name of the company	% holding by Arvind
1	Arvind Envisol Limited	100.00%	14	Westech Advance Materials Limited	51.00%
2	Syntel Telecom Limited	100.00%	15	Brillaries Inc	100.00%
3	Arya Omnitalk Wireless Solutions Private Limited	50.06%	16	Arvind Niloy Exports Private Limited	70.00%
4	Arvind PD Composites Private Limited	51.00%	17	Arvind Textile Mills Limited	100.00%
5	Arvind OG Nonwovens Private Limited	74.00%	18	Arvind Lifestyle Apparel Manufacturing PLC	100.00%
6	Arvind Goodhill Suit Manufacturing Private Limited	51.00%	19	Arvind Envisol PLC	100.00%
7	Arvind Internet Limited	100.00%	20	Arvind Enterprises (FZE)	100.00%
8	Arvind Ruf & Tuf Private Limited	100.00%	21	Maruti Ornet and Infrabuild LLP	100.00%
9	Arvind Premium Retail Limited	51.00%	22	Enkay Converged Technologies LLP	100.00%
10	Arvind True Blue Limited	87.50%	23	Arya Omnitalk Radio Trunking Services Private Limited	50.00%

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Sr. No	Name of the company	% holding by Arvind	Sr. No	Name of the company	% holding by Arvind
11	Arvind Smart Textiles Limited	100.00%	24	Arudrama Developments Private Limited	50.00%
12	Arvind Transformational Solutions Private Limited	100.00%	25	Arvind and Smart Value Home LLP	50.00%
13	Arvind Worldwide Inc	100.00%			

Note: *the following companies which were subsidiaries/step-down subsidiaries/JVs of Arvind as per its audited annual report of FY18 have ceased to be so from November 29, 2018: Arvind Fashions Limited-(89.96%); Arvind Lifestyle Brands Limited-(100%); Arvind Beauty Brands Private Limited- (100%); Calvin Klein Arvind Fashion Private Limited-(50.00%), Tommy Hilfiger Arvind Fashions Private Limited-(50.00%) and The Anup Engineering Limited (93.54%).*

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