

Press Release

Aarnav Industries Private Limited

May 06, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 66.06 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable
Short Term Rating	ACUITE A3+

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and short term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) to the Rs. 66.06 crore bank facilities of Aarnav Industries Private Limited (AIPL). The outlook is '**Stable**'.

AIPL, based at Ahmedabad (Gujarat), was incorporated in 2005. The company is engaged in processing of textile including designing, printing and processing of grey cloth which find application in suits and bed sheets. Apart from carrying out processing of its own cloth, AIPL also undertakes job work for its clients. The company is promoted by Mr. Champalal Gopiram Agarwal and Mr. Sumit Champalal Agarwal. The installed capacity stands at 475 lakhs meter per annum.

Analytical Approach

Acuite has considered the consolidated business and financial risk profiles of Gopi Synthetics Private Limited, Alpine Spinweave Private Limited and Aarnav Industries Private Limited together referred to as the 'Aarnav Group (AG)'. The consolidation is due to the common promoters, significant operational and financial synergies within the group. Extent of consolidation: Full.

Key Rating Drivers

Strengths

- Established track record of operations and experienced management**

AIPL is part of Aarnav group which has established presence of over three decades in processing of textile and trading of grey fabrics. The group undertakes various processing activities such as mercerising, calendaring, bleaching, dyeing, printing and finishing on the textile grey clothes. It also undertakes Job work for narrow width clothing such as shirting, dress material and kids garment. The group has integrated operations across the textile value chain and undertakes weaving, processing and trading. The companies are engaged in the manufacturing of yarn, grey fabric, denim fabric and processing (bleaching, printing, dyeing). Since 2016, the group has forayed into manufacturing of finished bed sheet sets, quilts and dohars in the fast - growing home linen market. The group was founded by Mr. Champalal Agarwal who possess over four decades of experience in textile processing and trading of grey fabrics. The other promoters, Mr. Sumit Champalal Agarwal and Mr. Sandip Santkumar Agarwal possess more than two decades of experience in the said line of business. The company is also well supported by well qualified and experienced second line of management.

- Location advantage and geographically well diversified clientele**

The group's manufacturing units are located in Ahmedabad (Gujarat) which is one of the major textile processing hubs in India. The presence of unit in the textile processing hub provides competitive advantage in terms of proximity to raw material, trained work force and marketing. Further, group has a pan India presence and has an established marketing set-up in prominent city across India. The group also caters in international markets through exports to Sri Lanka, East Asia and U.S.A.

- **Comfortable financial risk profile**

The financial risk profile of the group stood comfortable marked by tangible net worth of Rs. 190.36 crore (including unsecured loans from promoters of Rs. 80.44 crore) as on 31 March, 2018 as against Rs. 150.38 crore (including unsecured loans from promoters of Rs.58.24 crore) as on 31 March, 2017. The gearing (debt-equity) stood comfortable at 1.10 times as on 31 March, 2018 and 1.02 times as on 31 March, 2017. The interest coverage ratio stood moderate at 2.08 times for FY2018 which has improved from 1.88 times in FY2017. The TOL/TNW stood at 1.98 times in FY2018 as compared to 1.92 times in FY2017. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.10 times for FY2018. The DSCR stood moderate at 1.25 times for FY2018. Acuite believes that the financial risk profile will remain healthy in the medium term mainly due to healthy net worth base and steady accruals.

- **Improving revenues and capacity utilisation levels**

The operating income of the group has increased to Rs. 752.14 crore in FY2018 as compared to Rs. 565.03 crore in FY2017. The revenue has increased by 33.12 percent in FY2018 and is growing at compounded annual growth rate (CAGR) of 13.02 percent since 2016. The group has booked revenue of Rs. 917.78 crore for FY2019 (Provisional). Further, there has been consistent increase in capacity utilisation levels of the group for past three years ended FY2018 and remained healthy at 90.00 percent. Acuite believes that increase in capacity utilisation levels and increased capacity in FY2019 will lead to further improvement in revenue and net cash accruals over near to medium term.

Weaknesses

- **Moderate working capital cycle**

The moderate working capital cycle of the company is marked by moderate Gross Current Asset (GCA) of 194 days in FY2018 and 204 days in FY2017. GCA days are marked by high receivable days of 136 in FY2018 and 132 in FY2017. The same has increased reliance on utilisation of working capital limits. The average working capital utilisation limit stood at 90.00 percent for last six months ending December 2018.

- **Highly competitive textile industry and foreign currency fluctuation risk**

The textile industry in India is highly fragmented and competitive marked by presence of large number of organised and unorganised players. The group is exposed to intense competition from both domestic players as well as the established players in overseas market. The shifts in consumption patterns can also have an adverse impact on the operations of the group. The Indian textile industry has also seen a muted growth in past few years and may have impact on the growth of the existing players such as Aarnav group. AG also undertakes exports and has availed foreign currency term loan which has to be repaid in upcoming years. Any adverse impact of foreign currency fluctuation may result in increase in repayment obligations and will have impact on margins of the company. However, Acuite believes that extensive experience of promoters in textile industry and exports contributing less than 5 percent of the revenues will mitigate such risk to certain extent.

Liquidity Position:

The liquidity profile of the group stood moderate marked by moderate net cash accruals to its maturing debt obligations. The net cash accruals stood at Rs. 20.50 crore as compared to its total repayment obligations of Rs. 13.83 crore in FY2018. The cash accruals of the company are estimated to improve further during FY2019-21. The company's operations are moderately working capital intensive as marked by gross current asset (GCA) days of 194 in FY2018. This has led to moderate reliance on working capital borrowings, the cash credit limit of the company remains utilised at ~90.00 percent during the last six months period ended December, 2018. The current ratio of the company stood at 1.37 times in FY2018. The management follows moderate leverage policy on availing debt from banks for meeting its capital expenditure. Acuite expects the liquidity of the group to improve over the medium term on account of increase in generation of net cash accrual from scaling up of operations.

Outlook: Stable

Acuite believes that AG will maintain 'Stable' outlook over the medium term owing to its experienced management and established track record of operations in textile industry. The outlook may be revised to 'Positive' in case the group registers significant growth in revenue and profitability while maintaining its existing working capital cycle. The outlook may be revised to 'Negative' in case of significant decline in revenue, margins or stretch in working capital cycle leading to deterioration in financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	752.14	565.03	521.05
EBITDA	Rs. Cr.	45.02	33.89	31.95
PAT	Rs. Cr.	7.95	4.86	4.09
EBITDA Margin	(%)	5.99	6.00	6.13
PAT Margin	(%)	1.06	0.86	0.78
ROCE	(%)	9.27	9.22	19.11
Total Debt/Tangible Net Worth	Times	1.10	1.02	1.01
PBDIT/Interest	Times	2.08	1.88	1.82
Total Debt/PBDIT	Times	4.58	4.49	3.75
Gross Current Assets (Days)	Days	194	204	187

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-22.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	34.00	ACUITE BBB / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE BBB / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A3+
Letter of credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A3+
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3+
Term Loan	Not Applicable	Not Applicable	Not Applicable	3.53	ACUITE BBB / Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	8.53	ACUITE BBB / Stable

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