

Rating Update
October 13, 2023 | Mumbai**Aarnav Fashions Limited****Update as on October 13, 2023**

This update is provided in continuation of the rating rational below.

The key rating sensitivity factors for the rating include:

Upward factors:

- Stable operating profitability
- Improvement in the bank limit utilisation and interest coverage ratio rising above 2 times

Downward factors:

- Decline in the cash accrual to debt obligation ratio to below 1.4 times
- Large, debt-funded capital expenditure

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, CRISIL Ratings seeks regular updates from companies on the business and financial performance. CRISIL Ratings is, however, awaiting adequate information from Aarnav Fashions Limited (AFL; a part of the Aarnav group) which will enable us to carry out the rating review. CRISIL Ratings will continue provide updates on relevant developments from time to time on this credit.

CRISIL Ratings also identifies information availability risk as a key credit factor in the rating assessment as outlined in its criteria 'Information Availability Risk in Credit Ratings'.

About the Group

AFL amalgamated with Gopi Synthetics Ltd and other group companies wef October 1, 2020. AFL engaged in processing (bleaching, dyeing, printing and finishing) of fabrics such as suiting, shirting, dress material and dupattas and trades in grey fabrics and also does jobwork.

AIPL processes fabrics such as bedsheets and heavy suiting. The company has capacity to process cotton as well as polyester and blended fabrics and wider width cloth up to 120 inches. It was taken over by Mr Champalal Agarwal under a demerger scheme and given its current name. The demerger has been effective from April 2013 onwards.

ASPL was incorporated in February 2016 to size and weave cotton yarn; the unit was set up in two phases. Mr Champalal Agrawal and Mr Sandeep Agrawal are the promoters.

ACWL was incorporated in 2022 to size and weave cotton yarn with total capacity of 100 lakh meter and commenced operations from October 2022 onwards.

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Rating Rationale

August 04, 2023 | Mumbai

Aarnav Fashions Limited

Ratings reaffirmed at 'CRISIL BBB-/Stable/CRISIL A3'

Rating Action

Total Bank Loan Facilities Rated	Rs.155.56 Crore
Long Term Rating	CRISIL BBB-/Stable (Reaffirmed)

Short Term Rating

CRISIL A3 (Reaffirmed)

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1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL BBB-/Stable/CRISIL A3' ratings on the bank loan facilities of Aarnav Fashions Limited (AFL; a part of the Aarnav group)

The ratings continue to reflect extensive experience of the promoters in the textile industry and locational benefit because of proximity to the textile-processing hub. These strengths are partially offset by large working capital requirement and exposure to intense competition.

Analytical Approach:

CRISIL Ratings changed its analytical approach and consolidating the business and financial risk profiles of AFL with Aarnav Industries Pvt Ltd (AIPL), Alpine Cottweave LLP (ACWL) and Alpine Spinweave Pvt Ltd (ASPL) because of their operational and managerial linkages; the combined entity is referred as the Aarnav group.

Unsecured loan extended by the promoters and their family members has been treated as neither debt nor equity as the loan is subordinated to bank debt and is expected to remain in the business over the medium term.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Extensive experience of promoters:** The promoter, Mr Champalal G Agarwal, is the founder chairman of the entire group. He has more than four decades of experience in the textile business. Another director, Mr Sumit Agarwal, has around two decades of experience in marketing, finance and general administration. Expertise of the promoters, their strong understanding of market dynamics and healthy relations with customers and suppliers led to a well-established distribution network and strong credit risk profile of the group. Revenue group has been steady, driven by high-quality printing and finishing of cloth.
- **Locational advantage:** The manufacturing facilities are in Ahmedabad, which is a major textile processing hub in India. This leads to competitive advantage in terms of proximity to raw material, trained workforce, and marketing.

Weaknesses:

- **Large working capital requirement:** The working capital cycle is likely to remain moderately working capital intensive with gross current assets (GCAs) of 200-240 days as on March 31, 2023, driven by inventory and receivables of around 90-100 days and 150-160 days, respectively. The working capital is partially supported by payables of 80-90 days.

The group provides credit of around 90 days, but customers are able to stretch it on account of their long-term relationship. Inventory is usually 60-70 days owing to easy availability of raw material and strategic location of the plant.

Large working capital requirement and moderate credit from suppliers led to a moderately leveraged capital structure, as reflected in estimated total outside liabilities to tangible networth ratio of 2.3 times as on March 31, 2023.

- **Exposure to intense competition:** The textile industry is largely unorganised, as indicated by the presence of several players with small capacities. Entry barriers are low because of limited capital and technology requirement and small differentiation in the end products of different players. Also, players have limited pricing and bargaining power in case of fluctuations in raw material prices. However, due to increase in prices of coal, the operating margin of group estimated to decline to 5.6% in FY23 (against 7.4% in FY22), nevertheless, the same is expected to revive to historic year over the medium term.

Liquidity: Adequate

Bank limit utilisation was around 90% over the 12 months through March 2023. Moderate cushion is expected between cash accrual and debt obligation. Cash accrual is expected at Rs 35-45 crore versus repayment obligation of Rs 20-25 crore. Large working capital requirement led to higher dependence on the short-term working capital limit and on suppliers, which in turn resulted in moderately leveraged capital structure, thus limiting financial flexibility. However, the timely, need-based funds extended by the promoters and their relatives and friends will continue to boost financial flexibility.

Outlook: Stable

The Aarnav group will continue to benefit from extensive experience of the promoters and established market position.

Rating Sensitivity factors

Upward factors:

- Stable operating profitability
- Improvement in the bank limit utilisation and interest coverage ratio rising above 2 times

Downward factors:

- Decline in the cash accrual to debt obligation ratio to below 1.4 times
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About the Group

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Key Financial Indicators

Particulars	Unit	2023 [^]	2022
Revenue	Rs crore	396.91	419.67
Profit after tax (PAT)	Rs crore	0.38	8.42
PAT margin	%	0.10	2.01
Adjusted debt/adjusted networkth	Times	0.74	0.91
Interest coverage	Times	1.75	2.57

[^]provisional

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

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Annexure - Details of Instrument(s)

ISIN	Name of the instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue size (Rs. Crore)	Complexity Level	Rating assigned with outlook
NA	Bank Guarantee	NA	NA	NA	3.5	NA	CRISIL A3
NA	Cash Credit	NA	NA	NA	84	NA	CRISIL BBB-/Stable
NA	Inland/Import Letter of Credit	NA	NA	NA	10	NA	CRISIL A3
NA	Term Loan	NA	NA	Dec-27	44.62	NA	CRISIL BBB-/Stable
NA	Proposed Fund-Based Bank Limits	NA	NA	NA	13.44	NA	CRISIL BBB-/Stable

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Alpine Spinweave Private Limited	Full	Operational and financial fungibilities
Aarnav Industries Private Limited	Full	Operational and financial fungibilities
Aarnav Fashions Limited	Full	Operational and financial fungibilities

Annexure - Rating History for last 3 Years

Instrument	Current			2023 (History)		2022		2021		2020		Start of 2020
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	142.06	CRISIL BBB-/Stable	11-04-23	CRISIL BBB-/Stable	05-09-22	CRISIL BBB-/Stable		--		--	--
			--	08-02-23	CRISIL BBB-/Stable	27-04-22	CRISIL BBB-/Stable		--		--	--
Non-Fund Based Facilities	ST	13.5	CRISIL A3	11-04-23	CRISIL A3	05-09-22	CRISIL A3		--		--	--
			--	08-02-23	CRISIL A3		--		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bank Guarantee	2	State Bank of India	CRISIL A3
Bank Guarantee	1.5	Punjab National Bank	CRISIL A3
Cash Credit	26	State Bank of India	CRISIL BBB-/Stable
Cash Credit	47	Punjab National Bank	CRISIL BBB-/Stable
Cash Credit	11	SVC Co-Operative Bank Limited	CRISIL BBB-/Stable
Inland/Import Letter of Credit	1.5	State Bank of India	CRISIL A3
Inland/Import Letter of Credit	8.5	Punjab National Bank	CRISIL A3
Proposed Fund-Based Bank Limits	13.44	Not Applicable	CRISIL BBB-/Stable
Term Loan	13.58	State Bank of India	CRISIL BBB-/Stable
Term Loan	12.68	SVC Co-Operative Bank Limited	CRISIL BBB-/Stable
Term Loan	18.36	Punjab National Bank	CRISIL BBB-/Stable

Criteria Details

Links to related criteria
The Rating Process
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
CRISILs Criteria for Consolidation

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