



Press Release

Aarvee Denims & Exports Ltd

July 05, 2023

Ratings

Instrument / Facility	Amount (Rs. Crore)	Current Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	206.59	IVR D	Assigned	Simple
Short Term Bank Facilities	62.55	IVR D	Assigned	Simple
Total	269.14 (INR Two hundred sixty nine crore and fourteen lakh only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Aarvee Denims & Exports Ltd (ADEL) reflects delays in debt servicing obligations by the company owing to poor liquidity position. The ratings are constrained on account of decline in topline and profits since FY2020, leveraged capital structure and low coverage indicators, volatility in raw material prices and a competitive nature of business. However, the ratings also considers the experience of promoters with established track record in the business.

Key Rating Sensitivities:

Upward factors

- Regularization of delay for a period of 90 days on a continuous basis.

Downward Factors

- Not applicable

List of Key Rating Drivers with Detailed Description



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Key Rating Strengths

- **Experienced promoters with established track record in the business**

Established in 1988 by two promoter groups - the Arora group and the Virendra Bhogilal Shah Group, ADEL manufactures denim fabrics. The promoter groups have an experience of over 50 years in the textile industry. The Arora group has been focused on the marketing of textile products for over three decades, while the VB Shah group has been involved in cotton textile trading for over five decades. They are supported with a well-qualified and professional management team.

Key Rating Weaknesses

- **Delays in debt servicing obligations**

The company has ongoing delays in its debt service obligations due to its poor liquidity position leading to cash flow mismatches.

- **Decline in topline and profits since FY2020**

The total operating income (TOI) at the company has been declining since FY2020. TOI was Rs. 564.68 crore in FY20, Rs. 266.75 crore in FY21 Rs. 422.02 crore in FY22 and Rs. 260.90 crore in FY23. The company financial performance was adversely affected by decline in exports to U.S.A and Europe initially due to COVID-19 and subsequently due to the Russia-Ukraine war. Led by a decline in topline and increase in raw material prices that is cotton candy the company suffered an operating loss of Rs. 69.31 crore in FY23 compared with an operating loss of Rs. 62.51 crore in FY22.

- **Leveraged capital structure and low coverage indicators**

The capital structure of the company remained leveraged with higher dependence on external borrowings marked by high overall gearing ratio over the past few years. The overall gearing ratio remained high as it stood at 46.82x as on March 31,2023, TOL/TNW also stood high at 54.18x in FY23. The financial profile of the company is constrained due to decline in the topline during the recent years. Also, the company has reported net losses since FY20. Due to its weak profitability and depressed accruals, the coverage indicators of the company such as interest coverage ratio and debt service coverage ratio have also remained weak i.e below unity in recent years.

- **Volatility in raw material prices**



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The margins of the Company remain exposed to fluctuations in raw material prices which is mainly cotton and which are dependent on global commodity price movements.

- **Competitive nature of business**

ADEL faces intense competitive pressures from both established and lower-end operators. Over the last 4 - 5 years, many cotton yarn and denim manufacturers in the State of Gujarat have expanded capacities on account of various incentive schemes of the State and Central Governments. As a consequence, demand-supply situation has moved in favour of consumers, affecting margins.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

[Criteria of assigning rating outlook](#)

[Default Recognition Policy](#)

Liquidity - Poor

The liquidity position of the company remains poor since regular delays in the debt servicing obligations have been observed during the last few months.

About the Company

Established in 1988 by two promoter groups - the Arora group and the VB Shah Group, ADEL manufactures denim fabrics. The promoter groups have an experience of over 50 years in the textile industry. The Arora group has been focused on the marketing of textile products for over three decades, while the VB Shah group has been involved in cotton textile trading for over five decades. The company has a total installed capacity of 84 million meters per annum, which has been partially operating since March 2020.

Financials (Standalone):



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(Rs. crore)

For the year ended* / As On	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	422.02	260.90
EBITDA	-9.38	-28.19
PAT	-62.51	-69.31
Total Debt	412.91	396.53
Tangible Net worth	102.20	8.47
EBITDA Margin (%)	-2.22	-10.80
PAT Margin (%)	-14.72	-26.29
Overall Gearing Ratio (x)	4.04	46.82

*As per Infomerics' Standards

Status of non-cooperation with previous CRA: As per PR dated May 2, 2023, India Ratings continued to keep the ratings in the non-cooperating category due to non-cooperation from the client.

As per a PR dated Dec 21, 2022, Brickwork rating had migrated the ratings to 'Issuer Not Cooperating' category due to non-cooperation from the client.

Any other information: Nil

Rating History for last three years with Infomerics:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	GECL	Long Term	61.97	IVR D	-	-	-
2.	External Commercial Borrowing	Long Term	13.20	IVR D	-	-	-
3.	Cash Credit	Long Term	131.42	IVR D	-	-	-
4.	Pre-shipment Financing	Short Term	50.12	IVR D	-	-	-



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Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	GECL	Long Term	61.97	IVR D	-	-	-
5.	Letter of Credit	Short Term	10.24	IVR D	-	-	-
6.	Bank Guarantee	Short Term	2.19	IVR D	-	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.



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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
GECL 1	-	-	December' 25	10.63	IVR D
GECL 2	-	-	June' 28	8.22	IVR D
GECL 3	-	-	January '26	9.31	IVR D
GECL 4	-	-	June'28	6.37	IVR D
GECL 5	-	-	February'26	3.77	IVR D
GECL 6	-	-	February'26	3.77	IVR D
GECL 7	-	-	July'28	2.58	IVR D
GECL 8	-	-	February'26	9.91	IVR D
GECL 9	-	-	August'28	6.99	IVR D
GECL 10	-	-	February' 26	0.42	IVR D



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External Commercial Borrowing	-	-	November' 24	13.20	IVR D
Cash Credit 1	-	-	-	52.76	IVR D
Cash Credit 2	-	-	-	18.00	IVR D
Cash Credit 3	-	-	-	16.84	IVR D
Cash Credit 4	-	-	-	43.82	IVR D
Pre-shipment Financing	-	-	-	50.12	IVR D
Letter of Credit 1	-	-	-	6.74	IVR D
Letter of Credit 2	-	-	-	3.50	IVR D
Bank Guarantee	-	-	-	2.19	IVR D

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/len-adel-jul23.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com