RATING RATIONALE

10 Dec 2019

Arvind Goodhill Suit Manufacturing Pvt. Ltd.

Brickwork Ratings assigns the ratings for the Bank Loan Facilities of aggregating to Rs.37.05 Crs of Arvind Goodhill Suit Manufacturing Pvt. Ltd. (AGSMPL)

Particulars

Facilities/ Instrument**	Amount (₹ Cr)	Tenure	Rating*
	Present		Present
Fund Based – Term Loan	7.05	Long Term	BWR BBB (Stable) Assigned
Fund Based – CC/EPC/WCDL	25.00	Long Term	
NFB – LC/BC/BG	5.00	Short Term	BWR A2 Assigned
Total	**37.05**	**INR Thirty-Seven Crores and Five Lacs Only**	

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

** Details of Bank Loan facilities/NCD/Bonds/Commercial Paper is provided in Annexures-I

RATING ACTION / OUTLOOK

The rating inter-alia factors the strong parentage in the form of Arvind Ltd. (holds 51%) and a Joint venture (JV) with Goodhill Corporation Ltd., Japan (49%), Synergistics benefits arising out of parent support and commercial and technical collaboration with Goodhill, installed capacity of manufacturing of 360,000 pieces of Jackets, 120,000 pieces of waist coat and 520,000 pairs of trousers located in Bengaluru, and long standing relationship with export customer. The rating also factors experienced management and fund infusion by the JV partners of Rs.5.00 Crs during FY19 to fund CapEx for "Made to Measure" segment. The promoter (i.e. Arvind Ltd.) has maintained its shareholding at 51.00% as on FY19 and the rest is held by Goodhill Corp. (29%) and F-One Ltd. (20%, an associate of Goodhill). It is further supported by moderate financial profile, continuous increasing Net-worth from Rs.37.78 Crs in FY17 to Rs.52.47 Crs in FY19, though its operating revenues decreased during FY19 to Rs.58.77 Crs from Rs.99.27 Crs in FY18 especially due to sale of product (mainly exports of Rs.40.69 Crs from Rs.79.04 Crs in FY18) and incurred a loss of Rs.2.19 Crs in FY19 from a profit of Rs.4.68 Crs in FY18. However, it has achieved Rs.47.44 Crs operating income during H1 FY20. Overall gearing remains very low at 0.78x in FY19.

The rating is however constrained by the moderate scale of operations, high dependence on sales concentrated to few export customers which have resulted in subdued performance during FY19 and incurred losses, current subdued demand scenario in textile industry, which can be seen from fall in margins, fluctuation in raw material prices, intense pricing pressure due to competition and industry-wide capacity additions. It is further constrained by the high working capital requirement for the business, high inventory days and conversion cycle and foreign exchange fluctuation.

Outlook for the company remains Stable, considering the stable domestic revenue generation with some variation in export sales to the UK and US, adequate capacity utilization level, sound operations, entering in to "Made to Measure" segment, and generation of adequate cash accruals from current operations towards debt servicing.

Going forward, ensuring positive operating and net profitability, increasing income from export activities, adding more customer across the exporting regions will be key monitorables and rating sensitivities for the company. The outlook may be revised to "Positive" if there is substantial improvement in the financial profile, increased export orders and the utilization of capacity is maximized providing higher revenues and cash accruals or it may be revised to "Negative", if the company fails to achieve optimum utilization levels to generate adequate revenues, lower export orders and there is further deterioration in the financial profile of the company.

KEY RATING DRIVERS

Credit Strengths:

Strong Promoters Profile: Arvind Goodhill Suit Manufacturing is 51% owned and promoted by Arvind Ltd. and the remaining stake is held by JV partner Goodhill Corp. Ltd., Japan. The Company enjoys promoter support in the form of synergies arising out of operational and financial support and technical benefits from its JV partner in Japan. Its management comprises of experienced professionals within the industry and having extensive business experience in the field.

Earlier during FY19, promoters have infused Rs.5.00 Crs to fund CapEx for the "Made to Measure" segment and by which the company was able to augment its Net-worth to Rs.52.47 Crs and reduce its DE ratio to 0.78x as on FY19 from 0.81x as on FY18 (even after losses during FY19).

Long standing denim business of parent in the industry and operational synergistic support:
Its parent i.e. Arvind Ltd., is having long standing track record of integrated textile manufacturer and market position in the Indian textile industry, especially in the manufacturing of denims and shirts, which is having seven production facilities across the country. Later, Arvind diversified into woven fabric, which has provided lower dependency upon cyclical denim business. Further, JV with Goodhill, has provided design and technological benefits to the company. Goodhill Corp. is a Japanese suits manufacturing company with an expertise in manufacturing of men's as well as women's suits. Apart from Indian JV, they have four factories in Japan and One in China. Over the last five years, the company is able to leverage the suit manufacturing experience of Arvind and design and process technology of Goodhill.

Moderate Financials and low debt position:
AGSMPL incorporated in 2013, was able to achieve turnover of Rs.99.27 Crs in FY18, on the strength of few export orders. However, during FY19, revenues decline by 41% on account of subdued demand scenario in the industry, especially exports. But during H1 FY20, the company has

achieved its FY19 turnover and is expected to achieve numbers close to its FY18 revenues during FY20. Its gearing ratio remains low at 0.78x as of FY19 from 0.81x in FY18 and Net-worth position slightly increases Rs.52.47 Crs in FY19 as compared to Rs.48.82 Crs in FY18 and is having low repayment during the next couple of years.

Credit Risks:

Subdued demand scenario of the Industry:

The company remains exposed to industry subdued demand scenario, where fall in margins are experienced over the last one year. Arvind Ltd. also witnessed fall in margins on account of fall in demand and intense competition in the industry. While the domestic market is flooded with low cost apparel from Bangladesh (which sources low cost fabric from China and have labour cost advantage), there is not much relief from exports either. Imports from Bangladesh are growing stronger with each passing year. They grew by a sharp 53% to US$ 1.07 bn during FY19, while export of Indian synthetic apparel to the US continued to fall and were 4.9% lower at US$ 424.10 mn during Apr'19-Sep'19.

Customer concentration:

The Company's top five customers account for ~70% of the total sales, which poses the risk of customer concentration. This can be seen from FY19 financials, where revenues were dragged due to low export orders and increased its inventory level to Rs.37.81 Crs from Rs.28.90 Crs in FY18. Further its moderate scale of operations remains susceptible to the stable order inflow. Though domestic revenues and orders are generating stable revenues.

Volatile raw material, high working capital requirement and Forex fluctuation:

The company remains exposed to volatile raw material prices, as the order execution takes time from the date of receipt and the cost can be passed on to a certain extent. Similarly, the earnings also remain volatile due to foreign exchange fluctuation. During FY19, 50.76% of the exposure was hedged and rest was un-hedged. In FY19, it incurred a foreign exchange loss of Rs.48.58 lacs as compared to profit of Rs.27.98 lacs in FY18. The company's operations are high working capital intensive in nature.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale). BWR has taken a consolidated view on the operational and financial performance of the company, promoter's contribution and current power generation while arriving at rating.

RATING SENSITIVITIES

Going forward, ensuring positive operating and net profitability, increasing income from export activities, adding more customer across the exporting regions will be key monitorables and rating sensitivities for the company.

Positive: The outlook may be revised to "Positive" there is substantial improvement in the financial profile, increased export orders and the utilization of capacity is maximized providing higher revenues and cash accruals.

Negative: The Outlook may be revised to "Negative", if the company fails to achieve optimum utilization levels to generate adequate revenues, lower export orders and there is further deterioration in the financial profile of the company.

LIQUIDITY POSITION

The liquidity of the company remains stretched with Rs.7.73 Crs Cash accruals generated and Cash and Cash equivalent of Rs.1.60 Crs during FY18 as against debt repayment of Rs.7.33 Crs in FY19. However, Cash and cash equivalents reduced to Rs.0.86 Crs (excluding Rs.2.02 Crs of security deposits with banks) and generated cash accruals of Rs.0.94 Crs in FY19, as against CPLTD of Rs.2.02 Crs as of FY20. During FY19, the JV partners have infused Rs.5.00 Crs as Equity.

COMPANY PROFILE

Incorporated in 2013, Arvind Goodhill Suit Manufacturing Pvt. Ltd. (AGSMPL) is a 51:49 joint venture (JV) between Arvind Ltd., Goodhill Corporation Ltd. (Japan) and F-One Ltd. (Japan). GCL holds 29% directly and rest 20% is held through its associate company (F-One Ltd.). The company is engaged in manufacturing of suits with an installed capacity of 360,000 pieces of Jackets, 120,000 pieces of waist coat and 520,000 pairs of trousers as of FY19, in its manufacturing facility located in Bengaluru.

KEY FINANCIAL INDICATORS (in INR Crs)

The company's operating revenues decreased by 40.80% to Rs.58.77 Crs in FY19 from Rs.99.27 Crs in FY18, especially due to fall in sale of product (mainly exports of Rs.40.69 Crs from Rs.79.04 Crs in FY18) and exports incentives (Rs.2.60 Crs from Rs.6.64 Crs in FY18) in FY19. Further, EBITDA decreased to Rs.2.38 Crs in FY19 from Rs.10.12 Crs in FY18 and the company incurred losses of Rs.2.19 Crs in FY19 from a profit of Rs.4.68 Crs in FY18, due to slightly higher cost on account of fixed cost, lower other income of Rs.0.92 Crs in FY19 from Rs.3.47 Crs in FY18. In H1 FY20, its revenues are at Rs.47.44 Crs (as compared to Rs.58.77 Crs in FY19) with a loss of Rs.0.82 Crs (as compared to loss of Rs.2.19 Crs in FY19).

FINANCIAL INDICATORS - ISSUER

Key Parameters	Units	FY18	FY19
Result Type		**Audited**	**Audited**
Operating Income	Rs. Crs	99.27	58.77
EBITDA	Rs. Crs	10.12	2.38
PAT	Rs. Crs	4.68	-2.19
Tangible Net-Worth	Rs. Crs	48.82	52.47
D: E Ratio	Times	0.81	0.78
Current Ratio	Times	1.14	1.11

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED

The terms of sanction of loans from banks includes standard covenants normally stipulated for such facilities by Banks. Term loans are secured by way of first Pari-passu charge over Fixed Assets &

Second Pari-passu charge over current assets and working capital facilities are secured by way of first Pari-passu charge over current Assets & Second Pari-passu charge over Fixed assets.

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: NA

RATING HISTORY

Instrument/ Facility	Current Rating			Rating History		
	Tenure (Long Term/ Short Term)	Amount (₹ Cr)	Rating	2018	2017	2016
Fund based – Term Loan	Long Term	7.05	**BWR BBB (Stable) Assigned**	-	-	-
Fund Based – CC/EPC/WCDL	Long Term	25.00				
NFB – LC/BC/BG	Short Term	5.00	**BWR A2 Assigned**	-	-	-
Total		**37.05**	**INR Thirty-Seven Crores and Five Lacs Only**			

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Manufacturing Companies**

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ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1.	Canara Bank	Term Loan	2.82	-	2.82
2.	State Bank of India	Term Loan	2.98	-	2.98
3.	HDFC	Term Loan	1.25	-	1.25
		CC/ EPC/WCDL	25.00	-	25.00
4.	RBL Bank	LC/BC/BG	-	5.00	5.00
TOTAL					**37.05**

Total Rupees Thirty-Seven Crores and Five Lacs only.