



Press Release

Aarvee Denims & Exports Ltd September 2, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	91.84 (reduced from 206.59)	IVR D	IVR D	Reaffirmed	Simple
Short Term Bank Facilities	30.10 (reduced from 62.55)	IVR D	IVR D	Reaffirmed	Simple
Fixed Deposit	75.08	IVR D	-	Assigned	Simple
Total	197.02 (INR One hundred ninety seven crore and two lakh only)				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics has reaffirmed the ratings assigned to the existing bank facilities and assigned ratings to the fixed deposit of Aarvee Denims & Exports Ltd (ADEL), which takes into account ongoing delays in debt servicing obligations by the company owing to poor liquidity position. The ratings are also constrained on account of decline in topline and profits since FY2020 (refers to period from April 1, 2019 to March 31, 2020), leveraged capital structure and low coverage indicators, volatility in raw material prices and a competitive nature of business. However, the ratings also consider 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



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List of Key Rating Drivers with Detailed Description

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. However, the company has undertaken a debt reduction program, pursuant to which it is selling two of its manufacturing units and some of the plant and machineries, the funds from which will be used to pay off debt. The company is likely to complete this program by December 2024.

- **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 and Rs. 84.73 crore in FY24 (refers to period from April 1, 2023 to March 31, 2024). 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 net loss of Rs. 44.62 crore in FY24, Rs. 69.31 crore in FY23 (refers to period from April 1, 2022 to March 31, 2023), compared with a loss of Rs. 62.51 crore in FY22(refers to period from April 1, 2021 to March 31, 2022).

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

The capital structure of the company remained leveraged with higher dependence on external borrowings. The net worth of the company has eroded completely due to continuous losses suffered since FY2020. Due to its weak profitability and depressed accruals, the coverage



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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**

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](#)

[Criteria on assigning rating outlook](#)

[Policy on Default Recognition](#)

[Complexity Level of Rated Instruments/Facilities](#)

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

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.

Financials (Standalone):



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For the year ended/ As on*	(Rs. crore)	
	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	262.67	84.73
EBITDA	-26.39	-31.21
PAT	-69.31	-44.62
Total Debt	396.53	277.65
Tangible Net Worth	8.03	-64.32
EBITDA Margin (%)	-10.05	-36.84
PAT Margin (%)	-26.29	-48.85
Overall Gearing Ratio (x)	49.37	-4.32
Interest Coverage (x)	-0.57	-0.85

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: As per PR dated April 17, 2024, India Ratings continued to keep the ratings in the non-cooperating category due to non-cooperation from the client.

As per a PR dated July 4, 2024, Brickwork rating continued to keep the ratings to 'Issuer Not Cooperating' category due to non-cooperation from the client

Any other information: Nil

Rating History for last three years:



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Sr. No.	Name of Security/Facilities/ Instruments	Current Ratings (Year 2024- 2025)			Rating History for the past 3 years		
		Type (Long Term/Short Term)	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-2024 July 5, 2023	Date(s) & Rating(s) assigned in 2022-2023	Date(s) & Rating(s) assigned in 2021-2022
1.	GECL	Long Term	38.42	IVR D	IVR D	-	-
2.	External Commercial Borrowing	Long Term	-	Withdrawn	IVR D	-	-
3.	Cash Credit	Long Term	53.42	IVR D	IVR D	-	-
4.	Pre-shipment Financing	Short Term	24.40	IVR D	IVR D	-	-
5.	Letter of Credit	Short Term	3.51	IVR D	IVR D	-	-
6.	Bank Guarantee	Short Term	2.19	IVR D	IVR D	-	-
7.	Fixed Deposit	Long Term	75.08	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.



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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.

For more information and definition of ratings please visit www.infomerics.com.

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Annexure 1: Facility Details

Name of Facility/ /Security/ Instruments	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
GECL 1	-	-	-	December 2025	5.83	IVR D
GECL 2	-	-	-	June 2028	8.22	IVR D
GECL 3	-	-	-	January 2026	4.78	IVR D
GECL 4	-	-	-	June 2028	4.87	IVR D
GECL 5	-	-	-	February 2026	3.23	IVR D
GECL 6	-	-	-	February 2026	5.01	IVR D
GECL 7	-	-	-	August 2028	6.23	IVR D
GECL 8	-	-	-	February 2026	0.25	IVR D
Cash Credit 1	-	-	-	-	25.82	IVR D
Cash Credit 2	-	-	-	-	1.85	IVR D
Cash Credit 3	-	-	-	-	1.75	IVR D
Cash Credit 4	-	-	-	-	24.00	IVR D



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Pre-shipment Financing	-	-	-	-	24.40	IVR D
Letter of Credit 1	-	-	-	-	3.33	IVR D
Letter of Credit 2	-	-	-	-	0.18	IVR D
Bank Guarantee	-	-	-	-	2.19	IVR D
Fixed Deposit	-	-	-	-	75.08	IVR D

Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/len-Aarvee-Denims-sep24.pdf>

Annexure 3: Detailed explanation of covenants of the rated Security/facilities:

Security Description	Unsecured, Fixed Deposit
Issue Size	Rs.90.35 crore
Amount outstanding as on 30.06.24	Rs.75.08 crore
Date of opening of scheme	10.08.2019
Rate of interest	8.25% per annum
Interest payment duration	Yearly
Redemption	Renewed after 24 months

Annexure 4: List of companies considered for Combined analysis: NA

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.