July 13, 2023

Aarti International Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
LT fund-based cash credit	278.40	278.40	[ICRA]A-(Stable); reaffirmed
LT fund-based term loan	201.49	201.49	[ICRA]A-(Stable); reaffirmed
LT/ST non-fund based limits	27.30	27.30	[ICRA]A-(Stable/[ICRA]A2+; reaffirmed
ST fund-based bill discounting	--	10.00	[ICRA]A2+; reaffirmed
LT/ST unallocated limits	12.81	2.81	[ICRA]A-(Stable)/ [ICRA]A2+; reaffirmed
Total	**520.00**	**520.00**	

Rationale

The rating reaffirmation of Aarti International Limited (AIL) derives comfort from AIL's long track record of more than 28 years in the spinning business, its large-scale operations with a single-location spinning capacity of 1.8 lakh spindles, a wide product portfolio of basic and value-added yarn and partial forward integration into knitting and fabric processing. Further, comfort can be drawn from its consistently healthy capacity utilisation levels of around 97-99%, which provide benefits of economies of scale.

Over the years, AIL has been successful in ramping up its operations, which led to healthy revenue increase at CAGR of 16% during FY2017-FY2022. However, given the weak demand scenario and uncompetitive Indian prices, the revenues for FY2023 moderated marginally. Further, the margins declined sharply in FY2023 in lieu of industry-wide demand headwinds and input cost inflation, however, the coverage metrics and liquidity position continue to remain adequate despite plunge in profitability. Further, the conservative capital structure of the company, extensive experience of the promoters, long relationships with customers, and favourable demand conditions over the long term, provide comfort.

The ratings are, however, constrained by the commoditised nature of the company's products, which, coupled with the fragmented industry structure, results in limited pricing power, keeping profitability under check. Further, the ratings factor in the high year-end working capital intensity of AIL's operations, due to the seasonal nature of cotton availability that requires stocking during the harvest season, keeping the leverage high and profitability vulnerable to the volatility in cotton prices. Moreover, as AIL continues to derive ~30-35% of its revenues from exports (though the dependence upon exports has declined considerably from past levels), the earnings remain dependent on its ability to effectively hedge its export receivables, on a consistent basis, besides the demand trend in the export markets.

The Stable outlook reflects ICRA's opinion that AIL's credit profile is likely to remain comfortable, despite moderation in the operating margin in FY2023. Further, the expected recovery in the demand conditions from H2 FY2024, along with the moderation in cotton prices, would aid the operating performance over the medium term. While an ~Rs. 70-crore capex envisaged in the near to medium term is unlikely to materially impact the company's liquidity and capital structure, the same is likely to enhance AIL's scale of operations and value addition, going forward.

Liquidity position: Adequate

AIL's liquidity position is adequate, with adequate buffer of ~80%, with an average utilisation of ~20% on the sanctioned lines of Rs.278.4 crore during the 12-month period ending May 2023. Overall, ICRA expects AIL to be able to meet its near-term commitments through internal as well as external sources.

Please refer to the following link for the previous detailed rationale that captures Key rating drivers and their description, Rating sensitivities: Click here

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology - Textiles Industry (Spinning) Rating Methodology - Textiles Industry (Fabric Making)
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financials of NTL

About the company

AIL, incorporated in 1993, is a Ludhiana-based vertically integrated manufacturer of ring-spun yarns and knitted fabrics. The company has a large single-location spinning capacity of 1.80 lakh spindles, whereby it manufactures cotton and blended spun-yarns, with a focus on medium counts. To achieve partial forward integration, AIL forayed into fabric knitting with the commissioning of 15 knitting machines in FY2017. The company has, thereafter, installed a fabric processing capacity and has enhanced to 121 knitting machines with about 25 MT per day fabric knitting capacity. AIL also has rooftop solar installation of ~11 MW and two fully functional MLD ZLD ETP (Minimal Liquid Discharge & Zero Liquid Discharge Effluent Treatment Plants), with 92% of Recovery of Water.

AIL is part of the Ludhiana-based Aarti Group that also has interests in iron and steel business through Aarti Steels Limited (ASL)[1], which manufactures sponge iron, steel billets/ingots, rounds and bars, steel wires and ferro alloy.

Key financial indicators (audited)

NTL	FY2022	FY2023*
Operating Income (Rs. crore)	1,416.9	1,366.4
PAT (Rs. crore)	185.3	26.0
OPBDIT/OI (%)	22.2%	7.1%
PAT/OI (%)	13.1%	1.9%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	0.7
Total Debt/OPBDIT (times)	1.5	2.9
Interest Coverage (times)	8.1	4.2

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation
**Based on provisional results for FY2023*

Status of non-cooperation with previous CRA: Brickwork ratings has downgraded the rating to BWR BBB/Stable/A3 issuer not cooperating category from BWR BBB+/Stable/A2 issuer not cooperating category and withdraw ratings on June 20, 2023.

Any other information: None

[1] *ASL's bank facilities are rated [ICRA]A+(Stable)/[ICRA]A1. For detailed rating rationale, please refer to ICRA's website – www.icra.in*

Rating history for past three years

S. No	Instrument	Current rating (FY2024)					Chronology of Rating History for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of April 1, 2023 (Rs. crore)	Date & Rating		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Jul 13, 2023		Jan 17, 2023	Jan 3, 2022	Nov 23, 2020
1	Fund-based cash credit	Long Term	278.40	--	[ICRA]A- (Stable)		[ICRA]A- (Stable)	[ICRA]BBB+ (Stable); Withdrawn	[ICRA]BBB+ (Stable)
2	Fund-based term loan	Long Term	201.49	138.80	[ICRA]A- (Stable)		[ICRA]A- (Stable)	[ICRA]BBB+ (Stable); Withdrawn	[ICRA]BBB+ (Stable)
3	Non-fund based limits	Long-Term/ Short Term	27.30	--	[ICRA]A- (Stable)/ [ICRA]A2+		[ICRA]A- (Stable)/ [ICRA]A2+	--	--
4	Fund-based bill discounting	Short Term	10.00	--	[ICRA]A2+		--	--	--
5	Unallocated limits	Long-Term/ Short Term	2.81	--	[ICRA]A- (Stable)/ [ICRA]A2+		[ICRA]A- (Stable)/ [ICRA]A2+	--	--
6	Bank Guarantee	Long-Term	--	--			--	[ICRA]BBB+ (Stable); Withdrawn	[ICRA]BBB+ (Stable)
7	Unallocated Limit	Long-Term	--	--			--	[ICRA]BBB+ (Stable); Withdrawn	[ICRA]BBB+ (Stable)
8	Letter of Credit	Short-Term	--	--			--	[ICRA]A2; Withdrawn	[ICRA]A2
9	Long-term/Short term Interchangeable	Long-Term/ Short Term	--	--			--	[ICRA]BBB+ (Stable)/ [ICRA]A2; Withdrawn	[ICRA]BBB+ (Stable)/ [ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
LT fund-based cash credit	Simple
LT fund-based term loan	Simple
LT/ST non-fund based limits	Very Simple
ST fund-based bill discounting	Simple
LT/ST unallocated limits	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: Click Here

Annexure I Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	**LT - Fund based - Term Loans**	FY2015-FY2023	6.0%	FY2024-FY2030	201.49	[ICRA]A- (Stable)
NA	**LT - Fund based - Cash Credit**	NA	NA	NA	278.40	[ICRA]A- (Stable)
NA	**LT/ST - Non-fund based limits**	NA	NA	NA	27.30	[ICRA]A- (Stable)/ [ICRA]A2+
NA	**ST fund-based bill discounting**	NA	NA	NA	10.00	[ICRA]A2+
NA	**LT/ST - Unallocated**	NA	NA	NA	22.81	[ICRA]A- (Stable)/ [ICRA]A2+

Source: *AIL*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis- Not Applicable

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