January 27, 2025

Aarti International Limited: Ratings reaffirmed; outlook revised to Stable from Negative

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 and outlook revised to Stable from Negative
LT fund-based term loan	199.27	199.27	[ICRA]A-(Stable); reaffirmed and outlook revised to Stable from Negative
LT/ST non-fund based limits	27.30	27.30	[ICRA]A-(Stable)/ [ICRA]A2+; reaffirmed and outlook revised to Stable from Negative
ST fund-based bill discounting	10.00	10.00	[ICRA]A2+; reaffirmed
LT/ST unallocated limits	5.03	5.03	[ICRA]A-(Stable)/ [ICRA]A2+; reaffirmed and outlook revised to Stable from Negative
Total	**520.00**	**520.00**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in the outlook on the long-term ratings considers better-than-expected recovery in earnings of Aarti International Limited (AIL) in 9M FY2025 and expectation of sustained growth in revenues and earnings over the near-to-medium term. In 9M FY2025, AIL's revenues grew by 4% (on an annualised basis) to Rs. 1,006 crore and its operating margins improved by 270 bps to 6.9%. This follows after revenues fell by ~6% on a YoY basis in FY2024 and the operating margins moderated by 300 bps to ~4.2% in FY2024. Healthy recovery in profitability and lower utilisation of working capital limits resulted in an improvement in debt coverage metrics with the interest coverage improving to 4.3 times in 9M FY2025 from 1.8 times in FY2024. While an increase in contribution levels is expected due to the prevailing low cotton prices, a sustained expansion in the operating margins, leading to an improvement in debt protection metrics, remains a key monitorable.

The ratings remain supported by AIL's track record of three decades 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, partial forward integration into knitting and fabric processing and healthy capacity utilisation levels. 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. Capital expenditure incurred in FY2023 and FY2024 led to an increase in AIL's spinning capacity by 18% to 42,500 tonnes per annum (TPA) and knitting capacity by 12% to 10,107 TPA in FY2024. Benefits from the same are expected over the medium-to-long term. AIL's revenues increased at a CAGR of 8% in the last five years (FY2020-FY2024) and are likely to be sustained over the medium term, with gradual recovery in demand.

The ratings continue to be 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.

Key rating drivers and their description

Credit strengths

Large-scale spinning operations with an established market position and sizeable presence in value-added products – AIL is a Ludhiana-based spinner with a single-location capacity of 1.8 lakh spindles, which is large compared with an average capacity of 28,000-30,000 spindles per unit in India. The large scale in yarn manufacturing augurs well for its cost structure in a commoditised market. The company manufactures pure cotton and blended spun yarn across a wide count range, with 30s and 32s counts accounting for a predominant portion of the production. In addition to the basic grey yarn, it manufactures value-added yarn. The ability to manufacture a diversified product range across various counts and varieties not only improves its value addition, but also provides AIL with the flexibility to switch among its product offerings, depending upon demand . Further, its forward integration into knitting and fabric dyeing increases the value addition and diversification, while moderating the impact of the cyclicality in the spinning industry.

Healthy operational performance, corroborated by consistently high utilisation of the spinning mill – Given its established market position in the industry with extensive relationships with clients and a value-added product profile, AIL's spinning unit's production levels have remained healthy, with more than 95% capacity utilisation in most years. In addition, AIL's capacity utilisation in the spinning division has been partially supported by increased captive consumption in the knitted fabrics division in the recent years. This is corroborated by a healthy capacity utilisation of ~96% and ~85% in the company's spinning division in FY2024 and 8M FY2025, respectively. ICRA notes that the capacity utilisation of AIL's fabric division improved on a YoY basis and stood at 72-73% in FY2024 and 9M FY2025 against 69% in FY2023. ICRA expects the capacity utilisation to remain at healthy level for the spinning division, going forward as well. The capacity utilisation for the fabric division is likely to improve further in the near-to-medium term.

Improvement in financial risk profile in 9M FY2025 and expectation of sustained improvement, going forward – AIL's financial risk profile has improved over the years, marked by healthy scale of operations and profit margins, leading to accumulation of a large net worth base. AIL reported a heathy operating performance in FY2022, with the company posting an all-time high operating income (OI) of Rs. 1,366.3 crore on the back of a sharp rise in yarn realisations. Its operating profit margin (OPM) also remained healthy at 23.2%, supported by healthy contribution levels. While the performance has been subdued in the last two fiscal due to unfavourable demand conditions, leading to volatility in cotton prices and lower realisations, the financial profile has improved in the current fiscal with recovery in demand. In 9M FY2025, the contribution levels improved by ~15%, leading to an increase in the operating margin by 270 bps to ~6.9%. The healthy recovery in profitability and reduction in working capital intensity led to an improvement in debt coverage metrics with the interest coverage rising to 4.3 times in 9M FY2025 from 1.8 times in FY2024. As the entity does not have any major debt-funded capex planned in the near-to-medium term, the capital structure and coverage indicators are expected to improve, going forward.

Credit challenges

Leveraged capital structure despite healthy net worth base, due to high year-end working capital requirements – Given the fixed as well as working capital-intensive nature of operations, AIL's financial leverage, like other domestic spinning companies, has remained high over the years. AIL has incurred significant debt-funded capex between FY2022 and FY2024 (~Rs. 255 crore) towards expansion, upgradation and maintenance of its facilities and solar power projects. This has led to a sharp increase in term debt outstanding on its books, which moderated the coverage metrics at FY2023-end. In FY2024, the overage metrics deteriorated further with decline in profitability. Additionally, the year-end debt and working capital intensity level, which is high due to increased cotton stocking during the harvest season (inventory level peaks in March) continues to moderate the capital structure and coverage metrics towards the year end. However, ICRA notes that the company has no major capex plans in the near term, and availability of significant liquidity would aid in meeting debt repayment obligations as well as the near-term commitments.

Susceptibility to volatility in cotton and cotton yarn prices, and currency movements – AIL, like other entities in the spinning sector, stocks cotton during the harvest season from October to March. This practice exposes it to the fluctuations in cotton yarn prices. This results in high dependence on working capital borrowings and keeps the leverage high, particularly at the year end. As it derived 15-18% of its revenues in the last two fiscals from exports (declined from 30-35% in the past), AIL's profitability remains dependent on its ability to effectively hedge its export receivables, on a consistent basis, and on the demand in the export markets.

Commoditised nature of yarn, coupled with fragmented industry, keeps profitability under check – The spinning and knitting industries are highly fragmented with a significant share of the unorganised segment. While AIL manufactures a wide variety of products, encompassing yarns with varying levels of value addition and knitted fabrics, its product portfolio continues to be concentrated towards medium-count and low-to-medium value-added yarns and fabrics. As a result, limited pricing power is likely to keep its profitability under check.

Liquidity position: Adequate

AIL's liquidity position is adequate, with stable operating cash flows and substantial buffer on working capital sanctioned limits with an average utilisation of ~21% on the Rs. 278.4 crore limits during the 9-month period ending in December 2024. Against the expected cash accruals of Rs. 70-80 crore in FY2025, it has debt repayment obligations of Rs. 45.3 crore in FY2025 and Rs. 49.8 crore in FY2026. Overall, ICRA expects AIL to be able to meet its near-term commitments through internal as well as external sources.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company reports a healthy increase in its scale of operations, along with a sustained recovery in its profitability, leading to an improvement in its return and debt protection metrics. Further, efficient working capital management, which improves AIL's liquidity position, could be a positive trigger. A specific credit metric for ratings upgrade would be ROCE of more than 16% on a sustained basis.

Negative factors – The ratings could witness a downward revision, if any sharp decline in revenues and profits or any large debt-funded capex adversely impacts its credit metrics or liquidity position. Specifically, AIL's interest cover remaining below 4 times, on a sustained basis, would be a negative factor.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Textiles - Spinning Textiles - Fabric
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financials of AIL

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 1.8 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 knitting capacity of 5.8 million kg per annum and fabric dyeing capacity of about 30 MT per day (enhanced from 21 MT per day over last four years) and a rooftop solar plant with an installed capacity of 13 MW.

AIL is a part of the Ludhiana-based Aarti Group [that also owns Aarti Steels Limited (ASL)[1] and Aarti Steel International Limited (ASIL)[2]] which manufactures sponge iron, steel billets/ingots, rounds and bars, steel wires and ferro alloy.

[1] *ASL's bank facilities are rated [ICRA]A(Stable)/[ICRA]A2+. For detailed rating rationale, please refer to ICRA's website – www.icra.in*
[2] *ASIL's bank facilities are rated [ICRA]A+(Stable)/[ICRA]A1. For detailed rating rationale, please refer to ICRA's website – www.icra.in*

Key financial indicators (audited/ provisional)

	FY2023	FY2024	9M FY2025*
Operating income	1,366.3	1,287.2	1,006.1
PAT	17.8	(19.7)	14.2
OPBDIT/OI	7.2%	4.2%	6.9%
PAT/OI	1.3%	(1.5%)	1.4%
Total outside liabilities/Tangible net worth (times)	0.8	1.1	-
Total debt/OPBDIT (times)	3.1	8.5	3.7
Interest coverage (times)	3.4	1.8	4.3

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amounts in Rs. crore*

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & rating in FY2025		Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Jan 27, 2025	Jul 29, 2024	Jul 13, 2023	Jan 17, 2023	Jan 3, 2022
1	Fund-Based Cash Credit	Long Term	278.40	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable); Withdrawn
2	Fund-Based Term Loan	Long Term	199.27	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable); Withdrawn
3	Non-Fund Based Limits	Long Term/ Short Term	27.30	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Negative)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	--
4	Fund-Based Bill Discounting	Short Term	10.00	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	--	--
5	Unallocated Limits	Long Term/ Short Term	5.03	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Negative)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	--
6	Bank Guarantee	Long Term	--	--	--	--	--	[ICRA]BBB+ (Stable); Withdrawn
7	Unallocated Limit	Long Term	--	--	--	--	--	[ICRA]BBB+ (Stable); Withdrawn
8	Letter of Credit	Short Term	--	--	--	--	--	[ICRA]A2; Withdrawn
9	Interchangeable	Long Term/ Short Term	--	--	--	--	--	[ICRA]BBB+ (Stable)/ [ICRA]A2; Withdrawn

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 analysing 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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	LT Fund-Based Cash Credit	NA	NA	NA	278.40	[ICRA]A- (Stable)
NA	LT Fund-Based Term Loan	FY2015-FY2023	7-9%	FY2024-FY2030	199.27	[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 Limits	NA	NA	NA	5.03	[ICRA]A-(Stable)/ [ICRA]A2+

Source: Company

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

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

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Srikumar K
+91 44 4596 4318
ksrikumar@icraindia.com

Ramakrishnan G S
+91 44 4596 4300
g.ramakrishnan@icraindia.com

Geetika Mamtani
+91 22 6169 3330
geetika.mamtani@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

ABOUT ICRA LIMITED

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches