

August 31, 2010

**CARE ASSIGNS 'CARE BB+ (SO)' RATING TO THE BANK FACILITIES OF  
ARVIND RETAIL LTD**

**Rating Assigned**

Facilities/Instruments	Amount (Rs. crore)	Ratings <sup>1</sup>	Remarks
Long-term Bank Facilities	35.0	<b>CARE BB+(SO)</b> [Double B plus (Structured Obligation)]	Assigned
<b>Total facilities</b>	<b>35.0</b>		

*The above rating is based on the strength of unconditional and irrevocable corporate guarantee provided by Arvind Ltd. (Arvind) (holding company rated CARE BB+/PR4) vide guarantee deed dated Oct.31, 2009.*

**Rating Rationale**

The ratings of Arvind reflect its exposure to risks relating to volatility in cotton prices, interest rate and forex fluctuation risk, weak financial risk profile, high competition in the industry and depressed textile scenario. The ratings are also constrained by the corporate guarantees given to its group companies/subsidiaries and possible future fund requirement to support the group companies which are being de-merged. The ratings also factor in the post demerger revenue concentration in denim which is likely to increase. These weaknesses are, however, partially offset by the vast experience of promoters, Arvind's status as one of the world's largest denim players, clean track record post re-phasing of loans, expected improvement in operational and financial performance in near future on account of comfortable hedging level of export receivables (which mitigates forex fluctuation risk in the short to medium term) and expected improvement in cash flow post demerger. The company also has a valuable land bank which it is planning to sell in near future. The timely servicing of debt obligations as per the revised schedule, impact of demerger and realisation of cash after sale of surplus land and its end use remain the key rating sensitivities.

**Company Profile**

Arvind Retail Ltd. (ARL) was originally incorporated in March, 2007 under the name of Aakar Foundation Ltd. by Ahmedabad based Lalbhai group. The name of the company was changed to ARL in June 2008. ARL is a wholly owned subsidiary of Arvind Ltd. (Arvind), the flagship company of Lalbhai group. Arvind demerged its retail business and the branded apparel business into two wholly owned subsidiaries (ARL and Arvind Lifestyle Brands Ltd respectively) with effect from Apr.1, 2009. Pursuant to demerger, the retail division of Arvind which was running apparel retailing chain under the umbrella brand of Megamart came under the fold of ARL.

ARL is engaged in business of retailing apparels and various accessories through Megamart stores present all over India.

ARL achieved PAT of Rs.2.0 crore on net sales of Rs.272.0 crore in FY10, the first year of operations.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications

### **About Arvind**

Arvind was incorporated in the year 1931 and is engaged in manufacturing of textiles. It is among the largest denim manufacturers in the world. It also manufactures a range of cotton shirting, denim, knits and bottom weights (Khakis) fabrics.

During FY09, the company reported a net loss of Rs.49 crore on total operating income of Rs.2290.05 crore as against net profit of Rs.28 crore on total operating income of Rs.2321.89 crore during FY08.

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