

## The Lakshmi Mills Company Limited

July 05, 2022

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	131.35 (Enhanced from 75.21)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)
Short-term bank facilities	16.27 (Reduced from 21.27)	CARE A2 (A Two)	Revised from CARE A3+ (A Three Plus)
<b>Total bank facilities</b>	<b>147.62</b> <b>(₹ One hundred forty- seven crore and sixty-two lakh only)</b>		

Details of facilities in Annexure-1.

### Detailed rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of The Lakshmi Mills Company Limited (LMC) factors in the sharp growth in the scale of operations with improved profitability; improved debt coverage metrics during FY22 (refers to the period from April 1 to March 31); and the addition of new tenants, which is expected to contribute to higher rental income, thereby sustaining the profit margins going forward.

The ratings continue to derive strength from the vast experience of the promoters in the textile industry, the comfortable capital structure, the presence of liquid investments and lease rental income from the land bank, and the long track record of operations in the textile industry.

The ratings are, however, constrained by the profit margins exposed to the volatility in raw material prices and the working capital-intensive nature of operations.

### Key rating sensitivities:

#### Positive Factors:

- Ability to scale up operations to above ₹500 crore and improve profitability on a consistent basis, with PBILDT margin above 15%.
- Improvement in the liquidity position, with current ratio in the range of 1.3x-1.5x.

#### Negative Factors:

- Any large debt-funded capex, leading to an overall gearing above 1x.
- Any drop in occupancy or rentals on the leased properties.

### Detailed description of the key rating drivers

#### Key Rating Strengths

#### Long track record of operations of the company and experienced promoters

LMC was established in 1910 by G Kuppaswamy Naidu, a first-generation entrepreneur. 'Lakshmi Mills' is a renowned brand in the textile industry in South India. Mr. Pathy, Chairman & Managing Director of LMC, is a commerce graduate, having over four decades of experience in the textile industry. The day-to-day activities are managed by his son, Aditya Pathy, Deputy Managing Director who is a Business Management graduate.

#### Diversified product profile and reputed customer base

LMC's product profile includes 100% cotton, polyester/cotton blends, CVC blends, 100% micro tencel, 100% lenzing modal, modal/cotton blends and x-static/cotton blends in the count ranges from 40s to 120s. LMC enjoys a well-established network of own sales office, agents and distributors in domestic market mainly in state of Gujarat and Maharashtra attributable to group's long-standing presence in textile business. During FY22, the top 10 customers accounted for 58.88% (PY: 55.48%) of the total sales.

#### Comfortable capital structure and improved debt coverage metrics

The capital structure of the company stood comfortable, with an overall gearing of 0.13x as on March 31, 2022 which has improved from 0.19x as on March 31, 2021, due to an increase in accruals and fair value measurement of investments with LMW. The company is undergoing a capex of ₹45 crore (funded by a term loan of ₹25 crore and a rental security deposit of ₹20 crore) towards the renovation and construction of the existing building, laying out pavement, parking space and other necessary requirements for leasing out to a new tenant. LMC is also undergoing a capex of ₹40 crore (funded by term loan of

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

₹32 crore and the rest by accruals) towards the modernisation of the existing spindles. Despite the above debt-funded capex, the capital structure of the company is expected to remain comfortable.

The debt coverage metrics improved, with a total debt (TD)/ gross cash accruals (GCA) of 2.46 (PY: 8.09) as on March 31, 2022, due to growth in accruals. The interest coverage also improved from 2.03x in FY21 to 4.46x in FY22.

### **Liquid investments supporting the financial risk profile and presence of land bank yielding rental income**

LMC acted as an investment company for the Lakshmi Mills group and continued to invest in the new ventures established by the promoters. LMC holds 5.2 lakh shares (7.78% of the total shareholding) of Lakshmi Machine Works of a face value of ₹0.52 crore as on date and the market value of the same amounts to ₹435.59 crore on June 20, 2022. The company has also accumulated land bank in the past at lower cost. The company has leased out free space in the factory premises to reputed customers which yielded Rs.5.81 crore in FY22 (PY: Rs.6.02 crore). LMC had also tied up new tenants for the lease rental space of 1.50 lakh square feet during current year which is also expected to aid in increased rental income and sustained profitability.

### **Growth in income and improved profitability during FY22**

The operating income improved by 84.4% from Rs.185.3 crores in FY21 to Rs.341.8 crores in FY22 due to increase in capacity utilization and better realizations of yarn. The PBILDT margin improved to 14.89% in FY22 from 13.58% in FY21, despite increase in raw material prices. The PAT had increased significantly from Rs.3.70 crore in FY21 to Rs.24.10 crore in FY22.

### **Key Rating Weaknesses**

#### **Exposure to the volatility in raw material prices**

Cotton and polyester staple fibre (PSF) are the major raw materials for the company. The profitability of spinning mills depends largely on the prices of cotton and cotton yarn, which are governed by various factors such as the area under cultivation, monsoon, international demand-supply situation, among others. The prices of PSF are also dependent on the prices of purified terephthalic acid (PTA) and mono ethylene glycol (MEG) - the two petrochemical derivatives, the costs of which are subject to volatility in the prices of crude oil.

### **Industry and prospects**

India's cotton crop estimate for the 2021-22 season has been further reduced by the Cotton Association of India (CAI) by 8.31 lakh bales to 315.32 lakh bales of 170 kg each in May 2022 from its previous estimate of 323.63 lakh bales of 170 kg each. Indian cotton's quality was affected by unseasonal rains during October-November 2021. The total cotton production during CS2020-21 was 352.48 lakh bales. Imports were allowed to control domestic prices which had surged past a record ₹1,00,000 a candy in May 2022. India's import of cotton raw and waste jumped 80.12% to US\$ 96.33 million in May 2022. Import of textile yarn, fabric, made-up article also increased by 42.34% to US\$ 213.74 million. In comparison, India had imported cotton raw and waste of US\$ 53.48 million, and textile yarn, fabric, made-up articles of USD 150.16 million in May 2021. Higher import of cotton and yarn during May 2022 show that there is limited supply of these raw materials for manufacturing of apparel. The cotton prices has now come down to ₹98,000 since the beginning of June 2022.

### **Liquidity: Adequate**

The liquidity is adequate marked by sufficient cushion in accruals against repayment obligations and free cash balance of ₹1.91 crore (PY: ₹0.15 crore) as on March 31, 2022. The company's operations are working capital intensive in nature. The average working capital utilisation of the company stood moderate at 80.26% for the 12 months ended April 30, 2022. The collection period improved from 47 days in FY21 to 37 days in FY22 due to prompt collection of receivables. The current ratio of the company has been below unity for the past few years due to the higher reliance on working capital borrowings and higher current maturities of debt. However, the company's rental income and income from investments are expected to ease out liquidity constraints.

### **Analytical approach:**

Standalone

#### **Applicable Criteria**

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Cotton Textile](#)

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### **About the Company**

LMC was incorporated in 1910 and manufactures cotton yarn and polyester-blended yarn. The company is based out of Coimbatore and has two spinning units in Kovilpatti and Palladam, Tamil Nadu, each. The total installed capacity of the company as on March 31, 2022, is 133,392 spindles. 80.43% (PY: 81%) of its revenue is derived from the sale of yarn and 19.57% (PY: 19%) from cloth and garments for the year ended March 31, 2022.

Brief Financials (₹ crore)	FY20 (A)	FY21 (A)	FY22(A)
Total operating income	222.06	185.30	348.86
PBILDT	11.21	25.20	51.94
PAT	(1.52)	3.70	24.07
Overall gearing ratio (times)	0.38	0.19	0.13
Interest coverage (times)	1.01	2.03	4.46

A: Audited

**Status of non-cooperation with previous CRA:**

Not applicable

**Any other information:**

Not applicable

**Rating history for last three years:** Please refer Annexure-2**Covenants on instruments rated:** NA**Complexity level of the instruments rated:** Please refer Annexure-3**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term loan		-	-	January 2032	85.75	CARE BBB+; Stable
Fund-based - LT-Cash credit		-	-	-	36.90	CARE BBB+; Stable
Fund-based - LT-Working capital demand loan		-	-	-	8.70	CARE BBB+; Stable
Non-fund-based - ST-Bank guarantee		-	-	-	1.60	CARE A2
Non-fund-based - ST-Letter of credit		-	-	-	13.27	CARE A2
Fund-based - ST-EPC/PSC		-	-	-	1.40	CARE A2

**Annexure-2: Rating history for the last three years**

Sr No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term loan	LT	85.75	CARE BBB+; Stable	-	1)CARE BBB; Stable (August 31, 2021)	1)CARE BBB-; Negative (August 04, 2020)	1)CARE BBB-; Stable (July 04, 2019)
2	Fund-based - LT-Cash credit	LT	36.90	CARE BBB+; Stable	-	1)CARE BBB; Stable (August 31, 2021)	1)CARE BBB-; Negative (August 04, 2020)	1)CARE BBB-; Stable (July 04, 2019)
3	Fund-based - LT-Working capital demand loan	LT	8.70	CARE BBB+; Stable	-	1)CARE BBB; Stable (August 31, 2021)	1)CARE BBB-; Negative (August 04, 2020)	1)CARE BBB-; Stable (July 04, 2019)
4	Non-fund-based - ST-Bank guarantee	ST	1.60	CARE A2	-	1)CARE A3+ (August 31, 2021)	1)CARE A3 (August 04, 2020)	1)CARE A3 (July 04, 2019)
5	Non-fund-based - ST-Letter of credit	ST	13.27	CARE A2	-	1)CARE A3+ (August 31, 2021)	1)CARE A3 (August 04, 2020)	1)CARE A3 (July 04, 2019)
6	Fund-based - ST-EPC/PSC	ST	1.40	CARE A2	-	1)CARE A3+ (August 31, 2021)	1)CARE A3 (August 04, 2020)	1)CARE A3 (July 04, 2019)

\* Long term/short term

**Annexure-3: Complexity level of instruments rated for the company**

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT-Working Capital Demand loan	Simple
4	Fund-based - ST-EPC/PSC	Simple
5	Non-fund-based - ST-Bank Guarantee	Simple
6	Non-fund-based - ST-Letter of credit	Simple

**Annexure-4: Detailed explanation of covenants of rated facilities:** Not applicable

**Annexure 5: Bank Lender Details for this Company**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

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