The Lakshmi Mills Company Limited

February 14, 2023

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	131.35	CARE BBB+; Negative	Reaffirmed; Outlook revised from Stable
Short-term bank facilities	16.27	CARE A2	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of The Lakshmi Mills Company Limited (LMC) 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, as evidenced by the net losses reported during 9mFY23 (refers to the period April 1 to December 31) and the working capital-intensive nature of operations.

Rating sensitivities: Factors likely to lead to rating actions

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.

Analytical approach: Standalone

Outlook: Negative

The outlook is negative, as the company's spinning operations are under stress and are expected to report losses for the current year due to industry-wide slowdown in demand for yarn. Furthermore, the delay in commencement of the rental receipts from new tenants can potentially have an impact on the liquidity position of the company going forward. Any further sharp decline in profitability and consequent impact on the liquidity or capital structure of the company may lead to a downward revision in the ratings. The outlook may be revised to 'Stable' if the company is able to ramp-up sales and improve profitability with addition of new tenants.

Key strengths

Long track record of operations of the company and experienced promoters

LMC was established in 1910 by G Kuppuswamy Naidu, a first-generation entrepreneur. 'Lakshmi Mills' is a renowned brand in the textile industry in south India. 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 the 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

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 the 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

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

requirements for leasing out to new tenants. LMC is also undergoing a capex of ₹40 crore (funded by term loan of ₹32 crore and the rest by accruals) towards the modernisation of the existing spindles. Despite the above debt-funded capex, CARE Ratings the capital structure of the company is expected to remain comfortable.

Liquid investments supporting the financial risk profile and presence of land bank yielding rental income
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 ₹607 crore on February 7, 2023. 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 ₹5.81 crore in FY22 (PY: ₹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.
The lease rental income from one of the new tenants was originally expected to be received from September 2022, while that of the other new tenants was expected from January 2023. However, there has been delay in handing over the premises. Any further delay in receipts of rental income from the new occupants will be a key monitorable and may lead to stretched liquidity.

Key weaknesses

Exposure to the volatility in raw material prices
Cotton and polyster 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.

Moderate financial performance during 9mFY23
During 9mFY23, the operating income declined on account of slowdown in the textile demand and stood at ₹198.9 crore registering a drop of 19.18% over 9mFY22. Furthermore, the higher raw material prices coupled with lower production led to decline in PBILDT margin to 7.13% in 9mFY23 (16.27% in 9mFY22) with net loss of ₹1.3 crore.

Liquidity: Adequate

The liquidity is adequate marked by tightly matched accruals during current year against the repayment obligations and moderate free cash balance of ₹1.91 crore (PY: ₹0.15 crore) as on March 31, 2022. However, the company's rental income and income from investments are expected to ease out liquidity constraints. The company had also sold a freehold land for ₹2.65 crore in current year, which has helped to bridge the liquidity shortfall. The company's operations are working capital-intensive in nature. The average working capital utilisation of the company stood moderate, at 78% for the 12 months ended January 2023. 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.

Industry and prospects

Cotton production in India has reduced from 352 lakh bales in 2020-21 to 315 lakh bales in Cotton Season (CS) 2021-22. After recording a peak cotton price of more than ₹1.10 lakh per candy during FY22, the prices have started to moderate and have corrected to ₹65,000 per candy in October 2022. CARE Ratings believes that cotton prices will moderate further with the expectation of higher cotton arrival in CS 2022-23, although it will remain higher than the pre-COVID-19 levels. Exports in cotton yarn witnessed a downward trend from January 2022 onwards, further aggravated by a slowdown in the global demand. Furthermore, H2FY23 is expected to remain muted for cotton yarn exporters due to the weak demand, resulting in lower capacity utilisation and higher cotton prices as compared to pre-COVID-19 levels.

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
Manmade Yarn Manufacturing
Manufacturing Companies

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)	March 31, 2021 (A)	March 31, 2022 (A)	9mFY23 (UA)
Total operating income	185.34	341.76	198.9
PBILDT	25.16	44.82	9.3
PAT	3.67	24.06	(1.3)
Overall gearing (times)	0.19	0.13	NA
Interest coverage (times)	2.03	3.85	2.79

A: Audited; UA- Unaudited; NA- Not available

Status of non-cooperation with previous CRA:
Not applicable

Any other information:
Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	36.90	CARE BBB+; Negative
Fund-based - LT-Term Loan		-	-	January 2032	85.75	CARE BBB+; Negative
Fund-based - LT-Working Capital Demand loan		-	-	-	8.70	CARE BBB+; Negative
Fund-based - ST-EPC/PSC		-	-	-	1.40	CARE A2
Non-fund-based - ST-Bank Guarantee		-	-	-	1.60	CARE A2
Non-fund-based - ST-Letter of credit		-	-	-	13.27	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) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	85.75	CARE BBB+; Negative	1)CARE BBB+; Stable (05-Jul-22)	1)CARE BBB; Stable (31-Aug-21)	1)CARE BBB-; Negative (04-Aug-20)	1)CARE BBB-; Stable (04-Jul-19)
2	Fund-based - LT-Cash Credit	LT	36.90	CARE BBB+; Negative	1)CARE BBB+; Stable (05-Jul-22)	1)CARE BBB; Stable (31-Aug-21)	1)CARE BBB-; Negative (04-Aug-20)	1)CARE BBB-; Stable (04-Jul-19)
3	Fund-based - LT-Working Capital Demand loan	LT	8.70	CARE BBB+; Negative	1)CARE BBB+; Stable (05-Jul-22)	1)CARE BBB; Stable (31-Aug-21)	1)CARE BBB-; Negative (04-Aug-20)	1)CARE BBB-; Stable (04-Jul-19)
4	Non-fund-based - ST-Bank Guarantee	ST	1.60	CARE A2	1)CARE A2 (05-Jul-22)	1)CARE A3+ (31-Aug-21)	1)CARE A3 (04-Aug-20)	1)CARE A3 (04-Jul-19)
5	Non-fund-based - ST-Letter of credit	ST	13.27	CARE A2	1)CARE A2 (05-Jul-22)	1)CARE A3+ (31-Aug-21)	1)CARE A3 (04-Aug-20)	1)CARE A3 (04-Jul-19)
6	Fund-based - ST-EPC/PSC	ST	1.40	CARE A2	1)CARE A2 (05-Jul-22)	1)CARE A3+ (31-Aug-21)	1)CARE A3 (04-Aug-20)	1)CARE A3 (04-Jul-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the 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 for any clarifications.

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About us:
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