

## The Lakshmi Mills Company Limited

July 11, 2023

Facilities	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	123.43 (Reduced from 131.35)	CARE BBB; Stable	Revised from CARE BBB+; Negative
Short-term bank facilities	21.27 (Enhanced from 16.27)	CARE A3+	Revised from CARE A2

Details of instruments/facilities in Annexure-1.

### 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 decline in the operating income and profitability with net losses reported during FY23 (refers to the period from April 1 to March 31). The ratings, however, 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 stable lease rental income, 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.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Ability to scale up operations to above ₹300 crore while maintaining a profit before interest, lease rentals, depreciation and taxation (PBILD) margin above 12% on consistent basis.
- Improve debt coverage metrics with total debt (TD)/gross cash accruals (GCA) below 4x.

#### 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: Stable

The 'Stable' outlook reflects that the company is expected to continue to derive benefits from the stable rental income, the cash flow support through liquid investments, its long-term relationships with customers, and the vast experience of the promoters.

### Detailed description of the key rating drivers

#### Key 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 and cotton blends, CVC blends, 100% micro tencel, 100% lenzing modal, modal and cotton blends, and x-static and cotton blends in the count ranges from 40s to 120s. LMC enjoys a well-established network of its own sales office and agents and distributors in the domestic market, mainly in the states of Gujarat and Maharashtra, attributable to the group's long-standing presence in the textiles business. During FY23, the top 10 customers accounted for 48.88% (PY: 58.88%) of the total sales.

##### Comfortable capital structure

The capital structure of the company stood comfortable, with an overall gearing of 0.17x as on March 31, 2023, albeit declined from 0.13x as on March 31, 2022. 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 from the tenants) towards the renovation and construction of the existing building, laying out pavement, parking space, and other necessary requirements for the tenants to occupy the premises. Furthermore, LMC is also

<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

undergoing a capex of ₹40 crore (funded by a 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 Limited (CARE Ratings) expects the capital structure of the company to remain comfortable.

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

LMC holds 5.2 lakh shares (4.87% of the total shareholding) of LMW of a face value of ₹0.52 crore as on date and the market value of the same amounts to ₹667.37 crore (market price of share: ₹12,834 as on June 29, 2023). The company has also accumulated a land bank in the past at a lower cost. The company has leased out free space in the factory premises to reputed customers, which yielded ₹6.39 crore in FY23 (PY: ₹6.02 crore). LMC had also tied up new tenants, including Lulu Hypermarket, for leasing a rental space of 1.50 lakh square feet. The company had started receiving rental income from Lulu since June 2023, while that of the remaining tenants is expected from November 2023.

#### Key weaknesses

**Decline in total operating income (TOI) and profitability during FY23:** The operating income decreased from ₹349.30 crore in FY22 to ₹243.51 crore in FY23 due to the decrease in capacity utilisation on the back of higher raw material prices coupled with a decline in yarn demand. The profitability of LMC has moderated with a profit before interest, lease rentals, depreciation and taxation (PBILDT) margin of 3.14% as against 14.99% in FY22. The company had reported a net loss of ₹5.01 crore in FY23 against the net profits of ₹33.65 crore in FY22.

#### 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, the 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 the volatility in the prices of crude oil.

#### Liquidity: Adequate

The liquidity is adequate, marked by tightly matched accruals against repayments, however, the company's rental income and income from investments are expected to ease out liquidity constraints. The cash balance stood moderate at ₹0.09 crore (PY: ₹1.91 crore) as on March 31, 2023. The company's operations are working capital-intensive in nature. The average fund-based working capital utilisation stood moderate at 87.73% for the 12 months ended May 31, 2023. 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.

**Assumptions/Covenants:** Not applicable

**Environment, social, and governance (ESG) risks:** Not applicable

#### 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 and industry

##### Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Textiles	Textiles & Apparels	Other Textile Products

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, 2023, is 133,392 spindles. The company mainly produces yarn in the count range of 60s to 100s. The Kovilpatti unit fully manufactures polyester-blend yarn and the Palladam unit produces both, cotton yarn and polyester-blended yarn. LMC also makes fabric from its own yarn by outsourcing, weaving, and processing work and is also into the trading of cloth and

garments. During FY23, LMC derived 79% (PY: 80%) of its revenue from the sale of yarn and 14% (PY: 18%) from cloth and garments.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	185.34	348.9	243.51
PBILDT	25.69	52.38	7.65
PAT	3.66	24.06	-5.01
Overall gearing (times)	0.19	0.13	0.17
Interest coverage (times)	2.03	4.46	0.94

A: Audited; Note: The above results are latest financial results 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; Stable
Fund-based - LT-Term Loan		-	-	January 2032	77.83	CARE BBB; Stable
Fund-based - LT-Working Capital Demand loan		-	-	-	8.70	CARE BBB; Stable
Fund-based - ST-EPC/PSC		-	-	-	1.40	CARE A3+
Non-fund-based - ST-Bank Guarantee		-	-	-	1.60	CARE A3+
Non-fund-based - ST-Letter of credit		-	-	-	18.27	CARE A3+

#### 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	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

					2023-2024			
1	Fund-based - LT-Term Loan	LT	77.83	CARE BBB; Stable	-	1)CARE BBB+; Negative (14-Feb-23) 2)CARE BBB+; Stable (05-Jul-22)	1)CARE BBB; Stable (31-Aug-21)	1)CARE BBB-; Negative (04-Aug-20)
2	Fund-based - LT-Cash Credit	LT	36.90	CARE BBB; Stable	-	1)CARE BBB+; Negative (14-Feb-23) 2)CARE BBB+; Stable (05-Jul-22)	1)CARE BBB; Stable (31-Aug-21)	1)CARE BBB-; Negative (04-Aug-20)
3	Fund-based - LT-Working Capital Demand loan	LT	8.70	CARE BBB; Stable	-	1)CARE BBB+; Negative (14-Feb-23) 2)CARE BBB+; Stable (05-Jul-22)	1)CARE BBB; Stable (31-Aug-21)	1)CARE BBB-; Negative (04-Aug-20)
4	Non-fund-based - ST-Bank Guarantee	ST	1.60	CARE A3+	-	1)CARE A2 (14-Feb-23) 2)CARE A2 (05-Jul-22)	1)CARE A3+ (31-Aug-21)	1)CARE A3 (04-Aug-20)
5	Non-fund-based - ST-Letter of credit	ST	18.27	CARE A3+	-	1)CARE A2 (14-Feb-23) 2)CARE A2 (05-Jul-22)	1)CARE A3+ (31-Aug-21)	1)CARE A3 (04-Aug-20)
6	Fund-based - ST-EPC/PSC	ST	1.40	CARE A3+	-	1)CARE A2 (14-Feb-23) 2)CARE A2 (05-Jul-22)	1)CARE A3+ (31-Aug-21)	1)CARE A3 (04-Aug-20)

\*Long term/Short term.

**Annexure-3: Detailed explanation of 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](mailto:care@careedge.in) for any clarifications.

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