

The Lakshmi Mills Company Limited

August 19, 2024

| Facilities | Amount (₹ crore) | Rating ¹ | Rating Action |
|----------------------------|----------------------------------|---------------------|---------------|
| Long-term bank facilities | 133.00 (Enhanced from 123.43) | CARE BBB; Stable | Reaffirmed |
| Short-term bank facilities | 22.87 (Enhanced from 21.27) | CARE A3+ | Reaffirmed |

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of The Lakshmi Mills Company Limited (LMC) continue to derive strength from the promoters' vast experience in the textile industry, comfortable capital structure, presence of liquid investments and lease rental income from the land bank, and the long track record of operations in the textile industry.

However, ratings are constrained by the profit margins exposed to the raw material price volatility, as evidenced by the net losses reported in past two years and the working capital intensive 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 (PBILDT) margin above 12% on a consistent basis.
- Improving debt coverage metrics with total debt (TD)/gross cash accruals (GCA) below 4x.

Negative factors

- Large debt-funded capex, leading to an overall gearing above 1x.
- 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 incremental rental income, the cash flow support through liquid investments, its long-term relationships with customers, and the promoters' vast experience.

Detailed description of key rating drivers

Key strengths

Long track record of operations of 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, a Business Management graduate, and Deputy Managing Director of LMC.

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, agents and distributors in the domestic market, mainly in Gujarat and Maharashtra, attributable to the group's long-standing presence in the textiles business. In FY24, the top 10 customers accounted for 50.01% (PY: 48.88%) of the total sales.

Comfortable capital structure

The company's capital structure stood comfortable, with an overall gearing of 0.17x as on March 31, 2024, which improved from 0.18x as on March 31, 2023. In FY24, the company availed lease rental discounting (LRD) loan of ₹20 crore, out of which, LMC deployed ₹8 crore for entering group captive solar/wind power of 20.5 MW, which meets around 60-70% of power requirement in the coming years. CARE Ratings expects the capital structure to remain comfortable in the medium term with no large debt-funded capex plans.

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

The presence of liquid investments and rental income supporting the financial risk profile

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 ₹779.10 crore (market price of share: ₹14,982.60 as on August 09, 2024). The company has leased out free space in the factory premises at Coimbatore city to Lulu Hypermarket, Ericsson, Voltas, ELGI Ultra, CAI Industries Pvt Ltd, among others, for 2.38 lakh sq ft, with a lease contract of three years to 15 years, renewable on expiry. In FY24, LMC received rental income of ₹16.48 crore, which increased from ₹6.40 crore in FY23 with addition of more tenants.

Key weaknesses

Moderate profitability with losses in FY24, though improved in Q1FY25

The operating income improved from ₹243.75 crore in FY23 to ₹260.09 crore in FY24, aided by increased rental income, accounting for 6.34% of the total revenue in FY24 (PY: 2.63%). The sales realisation of yarn had dropped in FY24 on the back of sluggish demand of yarn in the domestic and export markets. LMC's profitability has moderated with the PBILDT margin declined in FY24 due to increased power costs and reduced capacity utilisation. In FY24, the company entered power purchase agreement (PPA) through group captive power for 20.5 MW at relatively lower cost than Tamil Nadu Electricity Board (TNEB) rates. The power from PPA is expected to meet around 60% of total power costs. Due to the power cost savings and increased rental income, the company reported improved PBILDT margin of 9.80% in Q1FY25. The company is expected to sustain its improved margins in the medium term with the entire cost benefits of group captive power.

Margins vulnerable to raw material price volatility

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

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 ₹0.54 crore (PY: ₹0.09 crore) as on March 31, 2024. The company's current ratio has been below unity for the past few years due to higher reliance on working capital borrowings. The company's operations are working capital intensive in nature. The average fund-based working capital utilisation stood moderate at 90.68% for 12 months ended June 2024 (PY: 88%).

Assumptions/Covenants: Not applicable

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

Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

[Cotton Textile](#)

[Manmade Yarn Methodology](#)

About 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 company's total installed capacity, as on March 31, 2024, 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. In FY24, LMC derived 85% (PY: 82%) of its revenue from the sale of yarn and 11.85% (PY: 14.68%) from cloth and garments.

| Brief Financials (₹ crore) | March 31, 2023 (A) | March 31, 2024 (A) | June 30, 2024 (UA) |
|----------------------------|--------------------|--------------------|--------------------|
| Total operating income | 243.75 | 260.09 | 65.05 |
| PBILDT | 7.89 | 7.57 | 6.36 |
| PAT | -5.01 | -13.79 | -1.29 |
| Overall gearing (times) | 0.18 | 0.17 | NA |
| Interest coverage (times) | 0.97 | 0.63 | 1.58 |

A: Audited; UA: Unaudited; NA: Not available; Note: these are latest available financial results.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instruments/facilities: Annexure-3

Complexity level of 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 | 87.40 | CARE BBB; Stable |
| Fund-based - LT-Working capital demand loan | | - | - | - | 8.70 | CARE BBB; Stable |
| Fund-based - ST-EPC/PSC | | - | - | - | 3.00 | 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 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 2024-2025 | Date(s) and Rating(s) assigned in 2023-2024 | Date(s) and Rating(s) assigned in 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 |
| 1 | Fund-based - LT-Term loan | LT | 87.40 | CARE BBB; Stable | - | 1)CARE BBB; Stable (11-Jul-23) | 1)CARE BBB+; Negative (14-Feb-23) 2)CARE BBB+; Stable (05-Jul-22) | 1)CARE BBB; Stable (31-Aug-21) |
| 2 | Fund-based - LT-Cash credit | LT | 36.90 | CARE BBB; Stable | - | 1)CARE BBB; Stable (11-Jul-23) | 1)CARE BBB+; Negative (14-Feb-23) 2)CARE BBB+; Stable | 1)CARE BBB; Stable (31-Aug-21) |

| | | | | | | | | |
|---|---|----|-------|------------------|---|--------------------------------|--|--------------------------------|
| | | | | | | | (05-Jul-22) | |
| 3 | Fund-based - LT-Working capital demand loan | LT | 8.70 | CARE BBB; Stable | - | 1)CARE BBB; Stable (11-Jul-23) | 1)CARE BBB+; Negative (14-Feb-23) 2)CARE BBB+; Stable (05-Jul-22) | 1)CARE BBB; Stable (31-Aug-21) |
| 4 | Non-fund-based - ST-Bank guarantee | ST | 1.60 | CARE A3+ | - | 1)CARE A3+ (11-Jul-23) | 1)CARE A2 (14-Feb-23) 2)CARE A2 (05-Jul-22) | 1)CARE A3+ (31-Aug-21) |
| 5 | Non-fund-based - ST-Letter of credit | ST | 18.27 | CARE A3+ | - | 1)CARE A3+ (11-Jul-23) | 1)CARE A2 (14-Feb-23) 2)CARE A2 (05-Jul-22) | 1)CARE A3+ (31-Aug-21) |
| 6 | Fund-based - ST-EPC/PSC | ST | 3.00 | CARE A3+ | - | 1)CARE A3+ (11-Jul-23) | 1)CARE A2 (14-Feb-23) 2)CARE A2 (05-Jul-22) | 1)CARE A3+ (31-Aug-21) |

LT: Long term; ST: Short term

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

Not applicable

Annexure-4: Complexity level of 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 lender-wise details of bank facilities please [click here](#)

Note on complexity levels of 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 clarifications.

Contact Us

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About us:

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