

The Lakshmi Mills Company Limited

August 31, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long-term Bank Facilities	75.21 (Enhanced from 66.58)	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from CARE BBB-; Negative (Triple B Minus; Outlook: Negative)
Short-term Bank Facilities	21.27	CARE A3+ (A Three Plus)	Revised from CARE A3 (A Three)
Total Bank Facilities	96.48 (Rs. Ninety six crore and forty eight lakh only)		

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of The Lakshmi Mills Company Limited (LMC) factors in the improved profitability during FY21 (refers to the period April 1 to March 31) and Q1FY22 (refers to the period April 1 to June 30) on the back of better yarn prices and revival of the demand for the yarn post first wave of covid pandemic.

The ratings continue to derive strength from vast experience of the promoters, comfortable capital structure, presence of liquid investments and lease rental income from the land bank, and long track record of operations in the textile industry. The ratings are, however, constrained by the moderate debt coverage metrics, profit margins exposed to volatility in raw material prices and working capital intensive nature of operations.

Rating Sensitivities

Key Rating Sensitivities:

Positive Factors- Factors that could lead to positive rating action/upgrade:

- Ability to scale up the operations and improve profitability on a consistent basis with PBDIT margins above 14%.
- Improvement in liquidity position with current ratio in the range of 1.3x-1.5x

Negative Factor- Factors that could lead to negative rating action/downgrade:

- Any further large debt-funded capital expenditure, or continued losses and higher working capital borrowings leading to overall gearing above 1x.
- Any drop in occupancy or rentals on the leased properties or inability to tie up with new occupant for the ongoing lease rental project

Detailed description of the key rating drivers

Key Rating Strengths

Long-standing operations of the company and experienced promoters in textile segment

Mr. Pathy, Chairman 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, Mr Aditya Pathy who is a Business Management graduate. "Lakshmi Mills" is a renowned brand in the textile industry in South India.

Diversified product profile and reputed customer base

LMC majorly produces higher count's in cotton yarn segment ranging from 50's to 120's and polyester cotton blended yarn ranging from 40's to 100's. 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 FY21, the top ten customers accounted for 31.41% (PY: 31.01%) of the total sales.

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 (4.86% of the total shareholding) of Lakshmi Machine Works of Face value of Rs.0.52 crore as on date and the market value of the same amounts to Rs.408 crore as on August 25, 2021. The company has also accumulated land bank in the past at lower cost. The company has also leased out free space in the factory premises to reputed customers which yielded Rs.6.02 crore in FY21 (PY: Rs.3.97 crore).

Improvement in profitability margins for FY21 and Q1FY21

The operating income declined by 16% in FY21 as there was no operations for almost two months in Q1FY21 on account of covid lockdown. However, with increased demand for yarn and improved realizations post release of lockdown the PBILD margin improved from 5.05% in FY20 to 13.58% in FY21 and further improved to 14.55% in Q1FY22. LMC reported net profit of Rs.3.70 crore in FY21 as against net losses reported over the past two years.

Healthy capital structure

Due to improvement in fair value measurement of investments consequent to better share price of LMW, the networth of LMC improved from Rs.243 crore as on March 31, 2020 to Rs.477 crore as on March 31, 2021 and the overall gearing stood healthy at 0.19x as on March 31, 2021 as against 0.38x as on March 31, 2020. LMC plans to lease out around 1.5 lakh sq ft of existing land for running a shopping mall from FY23 onwards for which it plans to avail LRD loans of Rs.22 crore towards incurring renovation of existing loans. However, the capital structure is expected to remain comfortable post avilment of the loans.

Key Rating Weaknesses**Moderate debt protection metrics**

Due to high reliance on working capital borrowings and relatively lower accruals in the past, the debt protection metrics of LMC stood moderate with Total debt/ GCA of 8.09as on March 31, 2021 albeit improved from 10.73 as on March 31, 2020.

Vulnerability of margins to volatility in raw material prices

Cotton and Polyester Staple Fibre (PSF) are the major raw materials for the company and during the past years, the market has seen volatility in cotton yarn production due to the unstable cotton prices and inconsistent cotton yarn export policy. The profitability of spinning mills depends largely on the prices of cotton and cotton yarn which are governed by various factors such as area under cultivation, monsoon, international demand-supply situation, etc. Any price change in cotton fibre and its relative availability have a direct impact on the prices of PSF also. The prices of PSF are also dependent on the prices of PTA (purified terephthalic acid) and MEG (mono ethylene glycol), the two petrochemical derivatives, costs of which are subject to volatility in the crude oil prices.

Liquidity -Adequate

Liquidity is adequate marked by sufficient accruals against repayment obligations and moderate cash balance of Rs.0.15 crore (PY: Rs. 0.35 crore) as on March 31, 2021. The company's operations are working capital intensive in nature. The average working capital utilization of the company stood moderate at 79.72% for twelve months ended June 2021. The collection period increased from 62 days in FY20 to 71 days in FY21 on account of extended credit offered to the customers amidst covid pandemic. The current ratio of the company has been below unity for the past few years due to higher reliance on working capital borrowings. The company's rental income and income from investments are expected to ease out liquidity constraints to an extent.

Industry Outlook

The international cotton prices are expected to remain stable in the coming months supported by an expected improvement in global domestic cotton consumption and international trade demand with ending cotton stocks likely to decline by 3%. The cotton prices in India are also expected to be steady in the coming months backed by a likely growth in domestic consumption and improvement in cotton exports from India. While international demand for yarn is expected to stay stable backed by an increase in economic activities with the launch of Covid-19 vaccination drive in various parts of the world, it remains to be seen if Bangladesh continues to import significant quantity of cotton yarn from India.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Methodology for Cotton Textile Manufacturing](#)

[Rating Methodology for Manmade Yarn Manufacturing](#)

[CARE's Policy on Default Recognition](#)

[Financial Ratios- Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Criteria for Short term Instruments](#)

About the company

The Lakshmi Mills Company Limited (LMC) incorporated in the year 1910 is into manufacturing of 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 has total installed capacity of 1,33,392 spindles as on March 31, 2021 and produces yarn in the count range of 60s to 100s. Kovilpatti unit is fully into manufacturing of polyester blend yarn while Palladam unit produces both cotton yarn and polyester blend yarn. LMC also makes fabric from own yarn by outsourcing weaving and processing work and is also into trading of cloth and garments. During FY21 LMC derived 81% (PY: 83%) of revenue from sale of yarn and 19% (PY: 17%) from cloth & garments.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	222.06	185.30
PBILDT	11.21	25.20
PAT	(1.52)	3.70
Overall gearing (times)	0.38	0.19
Interest coverage (times)	1.01	2.03

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

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	March 2026	29.61	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 Guarantees	-	-	-	1.60	CARE A3+
Non-fund-based - ST-Letter of credit	-	-	-	18.27	CARE A3+
Fund-based - ST-EPC/PSC	-	-	-	1.40	CARE A3+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. 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	29.61	CARE BBB; Stable	-	1)CARE BBB-; Negative (04-Aug-20)	1)CARE BBB-; Stable (04-Jul-19)	1)CARE BBB-; Stable (01-Aug-18)
2.	Fund-based - LT-Cash Credit	LT	36.90	CARE BBB; Stable	-	1)CARE BBB-; Negative (04-Aug-20)	1)CARE BBB-; Stable (04-Jul-19)	1)CARE BBB-; Stable (01-Aug-18)
3.	Fund-based - LT-Working Capital Demand loan	LT	8.70	CARE BBB; Stable	-	1)CARE BBB-; Negative (04-Aug-20)	1)CARE BBB-; Stable (04-Jul-19)	1)CARE BBB-; Stable (01-Aug-18)
4.	Non-fund-based - ST-Bank Guarantees	ST	1.60	CARE A3+	-	1)CARE A3 (04-Aug-20)	1)CARE A3 (04-Jul-19)	1)CARE A3 (01-Aug-18)
5.	Non-fund-based - ST-Letter of credit	ST	18.27	CARE A3+	-	1)CARE A3 (04-Aug-20)	1)CARE A3 (04-Jul-19)	1)CARE A3 (01-Aug-18)
6.	Fund-based - ST-EPC/PSC	ST	1.40	CARE A3+	-	1)CARE A3 (04-Aug-20)	1)CARE A3 (04-Jul-19)	1)CARE A3 (01-Aug-18)

Annexure 3: Detailed explanation of covenants of the rated facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

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 Guarantees	Simple
6.	Non-fund-based - ST-Letter of credit	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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