Laxmi Garments

December 04, 2020

Ratings

Facilities/Instruments	**Amount (Rs. crore)**	**Ratings[1]**	**Rating Action**
Long Term Bank Facilities	0.31	CARE B-; ISSUER NOT COOPERATING* (Single B Minus ISSUER NOT COOPERATING*)	Rating continues to remain under ISSUER NOT COOPERATING category and Revised from CARE B; (Single B)
Short Term Bank Facilities	10.69	CARE A4; ISSUER NOT COOPERATING* (A Four ISSUER NOT COOPERATING*)	Rating continues to remain under ISSUER NOT COOPERATING category
Total Bank Facilities	**11.00 (Rs. Eleven Crore Only)**		

Details of instruments/facilities in Annexure

Detailed Rationale & Key Rating Drivers

CARE had, vide its press release dated September 09, 2019, placed the rating(s) of Laxmi Garments (LXG) under the 'issuer non-cooperating' category as LXG had failed to provide information for monitoring of the rating. LXG continues to be non-cooperative despite repeated requests for submission of information through e-mails, phone calls and email dated November 12, 2020. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating.

The revision in the rating takes into account the non-availability of requisite information due to non- cooperation by LXG with CARE's efforts to undertake a review of the outstanding ratings as CARE views information availability risk as key factor in its assessment of credit risk profile.

Detailed description of the key rating drivers

At the time of last rating on September 09, 2019 the following were the rating Strengths and weaknesses

Key Rating Weakness

Moderate profit margin

LXG is highly dependent on its key raw material i.e. yarn for production which constituted more than 60% of its total purchase. All-inclusive manufacturing expenses scaled up to 95% of its TOI, primarily due to LXG's dependency on outside parties for knitting, dying, and printing. Only the stitching activity is done in-house. However, its PBILDT margin increased by 104 bps in FY15 owing to the better economies of scale post the healthy increase in its TOI.

The PAT margin also increased by 113 bps following the improvement in PBILDT margin. The Gross Cash accruals (GCA) increased by 38% y-o-y to Rs.0.99 crore during FY15.

Moderate gearing and debt coverage indicators with sharp deterioration in FY16

The debts of the firm primarily consist of the working capital borrowings in the form of packing credit. The overall gearing stood moderate at 1.54 times as on March 31, 2015 which improved substantially from 2.59 times as on March 31, 2014 on account of the infusion of partners' capital worth Rs.1.38 crore in FY15. Furthermore, the interest coverage ratio stood moderate at 2.37 times in FY15 as against 2.04 times in FY14. The total debt to GCA also stood moderate at 5.84 years as on March 31, 2015 against 10.14 years as on March 31, 2014.The overall gearing deteriorated significantly to 3.68 times as on March 15, 2016 (provisional) with the decline in networth and increase in working capital borrowings which also resulted in the moderation in its debt coverage indicators.

Working capital intensive nature of operations

Its operating cycle was moderate at 44 days in FY15, which improved from 57 days in FY14 as a result of reduction in both inventory and average collection period. Though, there was a substantial increase in its TOI during FY15, the inventory and debtors reduced in absolute terms as on March 31, 2015 against previous year. However, the dependence on the working

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications.*

**Issuer Not Cooperating, based on best available information.*

capital borrowings for the day to day operations is high as indicated by the high average WC utilization of around 92% during the last 12 months ended February 2016. The current ratio was moderate at 1.24 times as on March 31, 2015.

Presence in fragmented and competitive nature of industry
The firm operates in a highly fragmented and competitive textile industry characterized by presence of large number of large and small players. While value additions made to fabric, which is by making them into garments, fetches a higher profit rather than just trading. Due to large number of similar players and reliance on other entities for processes reduces its negotiability. As a result of which its collection period is at 48 days while the credit given by its creditors is 14 days which makes the cash cycle constrained.

Forex fluctuation risk
LXG is primarily focused on exports while it also imports accessories which accounted for less than 7% of its purchases. It generally hedges its foreign currency receivables using a forward cover which mitigates the forex exchange fluctuation risk to a certain extent. However, any unhedged exposure in future may result in an adverse impact on its profitability in the event of any sharp volatility in the value of Indian rupee.

Capital withdrawal risk in partnership firm
Being a partnership firm, LXG is exposed to inherent risk of partners' capital being withdrawn at time of personal contingency, and firm being dissolved upon the death/retirement/insolvency of partners. However with no restrictions placed on withdrawals as in the case of company-like structure, this partnership firm faces the risk of withdrawals of partners. This also restricts its financial flexibility of LXG to a certain extent.

Key Rating Strengths
Experience of partners
The managing partner, Mr Subramanian, and Mr Sivakumar are engaged in the same line of business for a decade in their individual capacities, prior to incorporating this partnership concern in 2011. The experience of promoters benefits LXG in terms of the continuous growth in its scale of operations as indicated by a healthy compounded annual growth rate (CAGR) of 88% in the total operating income (TOI) last two years ended FY15 (refers to the period April 1 to March 31). The installed capacity of LXG is to produce 35 crore garments per year. While its capacity utilization was 73% in FY13, the annual production has consistently increased at a CAGR of 95% during the last two years.

Reputed customer base
During FY15, the exports constituted around 99% of its TOI. The international brands like Peacock Stores and Maxholding from UK and UAE respectively have been its stable customers in last three years. The stable orders from such brands provides some assured revenue visibility to the firm in short to medium term. The supplier base is predominantly domestic as it purchases from a small pool of players.

Modest scale of operations
Despite healthy growth in its TOI in the last two years, the scale of operations remained modest as indicated by its TOI of Rs.30.56 crore in FY15. The increase in TOI in last two years was majorly due to increase in demand from exports.
Further, its tangible networth also stood low at Rs.3.76 crore as on March 31, 2015 which also restricted its financial flexibility to a large extent. During FY16, till March 15, 2016, the firm has reported turnover of Rs.23.80 crore. The exports have declined by ~ 19% yo-y, because of the dip in order book. Furthermore, the tangible networth dipped to Rs.2.35 crore as on March 15, 2016.

Analytical Approach: Standalone

Applicable Criteria
Policy in respect of Non-cooperation by issuer
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Criteria for Short Term Instruments
Rating Methodology - Manufacturing Companies

About the Firm
Incorporated in 2011, LXG is a partnership firm managed by 4 equal partners viz. Mr Subramanian N, Mrs Lakshmi S, Mr Sivakumar S and Mrs Prema S. The day-to-day management of the firm is taken care by the managing partner Mr

Subramanian. It is based in Tiruppur, a major textile and knit wear hub in India, and is engaged in the business of manufacturing and exporting the readymade knitted garments.

Brief Financials (Rs. crore)	FY14 (A)	FY15 (A)
Total operating income	17.83	30.56
PBILDT	0.82	1.72
PAT	0.24	0.75
Overall gearing (times)	2.59	1.54
Interest Coverage (times)	2.04	2.37

*Audited

Status of non-cooperation with previous CRA: *CRISIL has conducted the review on the basis of best available information and has classified Laxmi Garments as "Not Cooperating" vide its press release dated August 20, 2020.*

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

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	-	-	July 2021**	0.31	CARE B-; ISSUER NOT COOPERATING*
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	5.00	CARE A4; ISSUER NOT COOPERATING*
Fund-based - ST-EPC/PSC	-	-	-	5.00	CARE A4; ISSUER NOT COOPERATING*
Non-fund-based - ST-Forward Contract	-	-	-	0.69	CARE A4; ISSUER NOT COOPERATING*

**Issuer did not cooperate; Based on best available information*
***updated loan closure details remained unavailable.*

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	0.31	CARE B-; ISSUER NOT COOPERATING*	-	1)CARE B; ISSUER NOT COOPERATING* (09-Sep-19)	1)CARE B; ISSUER NOT COOPERATING* (06-Jul-18)	1)CARE B+; ISSUER NOT COOPERATING* (15-May-17)
2.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	5.00	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4; ISSUER NOT COOPERATING* (09-Sep-19)	1)CARE A4; ISSUER NOT COOPERATING* (06-Jul-18)	1)CARE A4; ISSUER NOT COOPERATING* (15-May-17)
3.	Fund-based - ST-EPC/PSC	ST	5.00	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4; ISSUER NOT COOPERATING* (09-Sep-19)	1)CARE A4; ISSUER NOT COOPERATING* (06-Jul-18)	1)CARE A4; ISSUER NOT COOPERATING* (15-May-17)
4.	Non-fund-based - ST-Forward Contract	ST	0.69	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4; ISSUER NOT COOPERATING* (09-Sep-19)	1)CARE A4; ISSUER NOT COOPERATING* (06-Jul-18)	1)CARE A4; ISSUER NOT COOPERATING* (15-May-17)

**Issuer did not cooperate; Based on best available information*

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

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - ST-Bills discounting/ Bills purchasing	Simple
3.	Fund-based - ST-EPC/PSC	Simple
4.	Non-fund-based - ST-Forward Contract	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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