

The Lakshmi Mills Company Limited

July 04, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	67.99 (reduced from 78.27)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short term Bank Facilities	21.27	CARE A3 (A Three)	Reaffirmed
Total	89.26 (Rs. Eighty Nine crore and Twenty six lakh only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of The Lakshmi Mills Company Limited (LMC) continue to derive strength from vast experience of the promoters, comfortable capital structure, presence of liquid investments, and long track record of operations with diversified product profile & well-established market presence of LMC in the textile industry. The ratings however are constrained by the moderate debt coverage parameters, profit margins exposed to volatility in raw material prices with net loss witnessed during FY19 (refers to the period April 1 to March 31) and working capital intensive nature of operations

Going forward, ability of the company to manage volatility in cotton and yarn prices and there by improve profitability, while maintaining capital structure with overall gearing of below unity and effective working capital management with unutilized bank lines to meet incremental working capital needs would be key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Long standing experience of the company and experienced promoters: 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: LMC mainly produces higher counts in cotton yarn segment ranging from 50's to 120's and polyester cotton blended yarn ranging from 40's to 100's. LMC specializes in manufacturing of Lenzing Modal yarn & X-Static yarn belonging to higher quality.

Comfortable capital structure: The company adopted Ind AS with transition date of April 1, 2016. Due to fair value measurements of equity instruments and fixed assets, the overall gearing of LMC stood comfortable at 0.21x as on March 31, 2019 as against 0.20x as on March 31, 2018.

Key Rating Weaknesses

Moderate financial performance with losses reported during FY19: The operating income of the company stood relatively stable at Rs.251.27 crore in FY19 as against Rs.243.26 crore in FY18. However the PBILDT margin declined from 9.66% in FY18 to 6.85% in FY19 on account of higher raw material (Cotton) prices. This together with higher depreciation on recently completed capex on speed conversion of ring frames, LMC reported net loss of Rs.7.93 crore in FY19.

Moderate debt coverage metrics: with lower accruals, the debt coverage ratios stood moderate with Total debt/ GCA of 12.77x as on March 31, 2019 as against 8.28x as on March 31, 2018

Working capital intensive nature of operations: The collection period increased from 47 days in FY18 to 56 days in FY19 on account of increased competition. The current ratio of the company has been below unity for the past few years due to higher reliance on working capital borrowings. The average working capital utilization of the company is higher at 97.50% for twelve months ended May 2019.

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

Vulnerability of margins to volatility in raw material prices: 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 s-6 variety of cotton which stood at Rs.42,500 per candy at the end of April 2018 increased to Rs.48,600 per candy during Aug 2018 and declined during the period Feb-Mar'19. The cotton prices again started to rise since April 2019. Due to higher cotton prices, LMC's PBILDT margin declined from 9.66% in FY18 to 6.85% in FY19

Liquidity- Adequate

The liquidity position is adequate on account of presence of significant amount of Liquid investments as LMC acted as an investment company for the "Lakshmi Mills" group. LMC company holds 5.2 lakh shares of Lakshmi Machine Works (LMW) as on March 31, 2019 and the market value of the same amounts to Rs.285 crore as on June 07, 2019. The company has also accumulated land bank in the past at very low cost and has leased out free space in the factory premises at Coimbatore city. The rental income and dividend contribute to Rs.5 crore (PY: Rs.4.8 crore) of income to LMC in FY19. LMC also has free cash balance of Rs.1.7 crore (PY: Rs.1.2 crore) as on March 31, 2019.

Analytical approach: Standalone

Applicable Criteria

[CARE's methodology for manufacturing companies](#)

[Criteria on assigning Outlook to Credit Ratings](#)

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

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

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 at Kovilpatti and Palladam (TamilNadu) each. The total installed capacity of the company as on March 31, 2018 is 1,33,392 spindles. The company produces yarn in the count range of 40s to 120s.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	243.26	251.27
PBILDT	23.51	17.21
PAT	1.39	(7.93)
Overall gearing (times)	0.20	0.21
Interest coverage (times)	2.40	1.72

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

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	-	-	June 2024	22.39	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	22.39	CARE BBB-; Stable	-	1)CARE BBB-; Stable (01-Aug-18)	1)CARE BBB-; Stable (03-Aug-17)	1)CARE BBB- (08-Jul-16)
2.	Fund-based - LT-Cash Credit	LT	36.90	CARE BBB-; Stable	-	1)CARE BBB-; Stable (01-Aug-18)	1)CARE BBB-; Stable (03-Aug-17)	1)CARE BBB- (08-Jul-16)
3.	Fund-based - LT-Working Capital Limits	-	-	-	-	-	1)CARE BBB-; Stable (03-Aug-17)	1)CARE BBB- (08-Jul-16)
4.	Fund-based - LT-Working Capital Demand loan	LT	8.70	CARE BBB-; Stable	-	1)CARE BBB-; Stable (01-Aug-18)	1)CARE BBB-; Stable (03-Aug-17)	1)CARE BBB- (08-Jul-16)
5.	Non-fund-based - ST-Bank Guarantees	ST	1.60	CARE A3	-	1)CARE A3 (01-Aug-18)	1)CARE A3 (03-Aug-17)	1)CARE A3 (08-Jul-16)
6.	Non-fund-based - ST-Letter of credit	ST	18.27	CARE A3	-	1)CARE A3 (01-Aug-18)	1)CARE A3 (03-Aug-17)	1)CARE A3 (08-Jul-16)
7.	Fund-based - ST-EPC/PSC	ST	1.40	CARE A3	-	1)CARE A3 (01-Aug-18)	1)CARE A3 (03-Aug-17)	1)CARE A3 (08-Jul-16)
8.	Fund-based - LT-Working capital Term Loan	LT	-	-	-	-	-	1)Withdrawn (08-Jul-16)
9.	Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	-	-	-	1)CARE A3 (08-Jul-16)

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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