

**The Lakshmi Mills Company Limited** (Revised)  
 August 04, 2020

**Ratings**

Facilities	Amount (Rs. Crore)	Ratings <sup>1</sup>	Rating Action
Long-term Bank Facilities	66.58 (reduced from 67.99)	CARE BBB-; Negative (Triple B Minus; Outlook: Negative)	Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)
Long/Short-term Bank Facilities	21.27	CARE A3 (A Three)	Reaffirmed
<b>Total Facilities</b>	<b>87.85</b> <b>(Rs. Eighty seven crore and eighty five lakh only)</b>		

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of The Lakshmi Mills Company Private Limited (LMC) 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 parameters, profit margins exposed to volatility in raw material prices with net loss witnessed during FY20 (refers to the period April 1 to March 31) and working capital intensive nature of operations.

The outlook is negative as the company's operations are under stress as reflected by the losses in the spinning division which is further expected to moderate on account of reduced demand for yarn due to Covid-19 pandemic and this can potentially have an impact on the liquidity position of the company going forward. Any further sharp decline in profitability and consequent impact on the liquidity or capital structure of the company may lead to a downward revision in the ratings. The outlook may be revised to 'Stable' if the company is able to ramp up sales and improve profitability amidst the demand distortions stemming from the Covid-19 pandemic.

**Rating Sensitivities****Positive factors**

- Ability to improve profitability on a consistent basis with PBDIT margins above 10%.
- Improvement in liquidity position with current ratio in the range of 1.3x-1.5x.

**Negative Factors**

- Any further deterioration in profitability or any lapse in collection of lease rental income leading to cash accruals lower than anticipated for the year.
- Any large debt-funded capital expenditure, or continued losses and higher working capital borrowings leading to overall gearing above 1x.

**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 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 FY20, the top ten customers accounted for 31.41% (PY: 31.01%) of the total sales.

**Comfortable capital structure, however moderate coverage metrics:** The overall gearing of LMC stood comfortable at 0.38x as on March 31, 2020 as against 0.21x as on March 31, 2019. The debt coverage indicators stood moderate with Total debt / GCA of 10.73x (PY: 12.81) as on March 31, 2020.

**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. The investments in few companies continue in the books of LMC. The company holds 5.2 lakh shares (4.86% of total shareholding) of LMW as on date and the market value of the same amounts to Rs.145 crore as on July 17, 2020. It is to be noted that due to fall in share price of LMW during FY20, the fair value of investments in LMW decreased to Rs.119.61 crore as on March 31, 2020 from Rs.316.84 crore as on March 31, 2019. 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.3.97 crore in FY20 (PY: Rs.2.82 crore).

#### Key Rating Weaknesses

**Moderate financial performance with losses reported during FY20:** The operating income of the company has decreased by 11.55% from Rs.251.17 crore in FY19 to Rs.222.06 crore in FY20 due to the decreased sales volume of yarn with low demand along with reduced sales realization. The PBILDT margin also declined to 5.05% in FY20 from 7.25% in FY19 due to higher fixed overheads such as employee and power costs and also due to higher raw material prices mainly in H1FY20 which could not be passed on to the customers.

**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 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

#### Adequate liquidity

The liquidity of the company is adequate marked by sufficient cushion in accruals against the repayment obligations and modest cash balance of Rs.0.35 crore as on March 31, 2020. The company's operations are working capital intensive in nature. The average working capital utilization of the company is higher at 94.56% for twelve months ended June 2020. The company's rental income and income from investments are expected to ease out liquidity constraints to an extent. The company had opted for moratorium for the interest and principal during the period March to August 2020 as a relief measure offered by the banks for Covid-19 pandemic.

#### Industry Outlook and Prospects

Indian cotton spinning industry, which was already facing multiple headwinds such as low demand, unfavourable duty structure and fluctuating cotton fibre prices, is confronting another challenge in the form of Covid-19 pandemic. With the operations of LMC resumed during June 2020 post lockdown, the markets in Gujarat and Maharashtra, the main sources of supply of company's yarn is yet to open up. The collections of Receivables and clearance of finished stock continue to be staggered and thereby the cash flow is stressed.

**Analytical approach:** Standalone

#### Applicable Criteria

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

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

[Criteria for Short-term Instruments](#)

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

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

[Rating Methodology - Cotton Textile Manufacturing](#)

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

#### 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 (TamilNadu) each. The company has total installed capacity of 1,33,392 spindles as on March 31, 2020. The company majorly produces yarn in the count range of 60s to 100s. Kovilpatti unit is fully into manufacturing of polyester blend yarn and Palladam unit produces both cotton yarn and polyester blend yarn. LMC also makes fabric from own yarn by outsourcing weaving and processing work and also is into trading of cloth and garments. 83% (PY: 84%) of revenue is derived from sale of yarn and 17% (PY: 16%) from cloth & garments for the year ended March 31, 2020.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	251.17	222.06
PBILDT	18.22	11.21
PAT	(7.96)	(1.52)
Overall gearing (times)	0.21	0.38
Interest coverage (times)	1.65	1.01

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	20.98	CARE BBB-; Negative

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-Cash Credit	-	-	-	36.90	CARE BBB-; Negative
Fund-based - LT-Working Capital Demand loan	-	-	-	8.70	CARE BBB-; Negative
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 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	20.98	CARE BBB-; Negative	-	1)CARE BBB-; Stable (04-Jul-19)	1)CARE BBB-; Stable (01-Aug-18)	1)CARE BBB-; Stable (03-Aug-17)
2.	Fund-based - LT-Cash Credit	LT	36.90	CARE BBB-; Negative	-	1)CARE BBB-; Stable (04-Jul-19)	1)CARE BBB-; Stable (01-Aug-18)	1)CARE BBB-; Stable (03-Aug-17)
3.	Fund-based - LT-Working Capital Limits	-	-	-	-	-	-	1)CARE BBB-; Stable (03-Aug-17)
4.	Fund-based - LT-Working Capital Demand loan	LT	8.70	CARE BBB-; Negative	-	1)CARE BBB-; Stable (04-Jul-19)	1)CARE BBB-; Stable (01-Aug-18)	1)CARE BBB-; Stable (03-Aug-17)
5.	Non-fund-based - ST-Bank Guarantees	ST	1.60	CARE A3	-	1)CARE A3 (04-Jul-19)	1)CARE A3 (01-Aug-18)	1)CARE A3 (03-Aug-17)
6.	Non-fund-based - ST-Letter of credit	ST	18.27	CARE A3	-	1)CARE A3 (04-Jul-19)	1)CARE A3 (01-Aug-18)	1)CARE A3 (03-Aug-17)
7.	Fund-based - ST-EPC/PSC	ST	1.40	CARE A3	-	1)CARE A3 (04-Jul-19)	1)CARE A3 (01-Aug-18)	1)CARE A3 (03-Aug-17)

**Annexure 3: 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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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