

Press Release

Lalani Suitings Private Limited

October 12, 2017

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 8.75 Cr.
Long Term Rating	SMERA BB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed long-term rating of '**SMERA BB-**' (read as **SMERA BB minus**) on the Rs. 8.75 crore bank facilities of Lalani Suitings Private Limited. The outlook is '**Stable**'.

The Rajasthan-based Lalani Group established in 1991, is engaged in the manufacturing and trading of grey fabrics at Bhilwara, Rajasthan. The group comprises Lalani Suitings Private Limited (established in 2002), Lalani Sulz Fab Private Limited (established in 2007), Prakash Synthetics (established in 1993) and M R Fabrics (established in 1991). The operations are led by Mr. Moti Lal Lalani, Mr. Harak Chand Lalani and Mr. Pankaj Kumar Lalani. The operating capacity stands at 3.5 lakh meters per month.

Key Rating Drivers

Strengths

- **Moderate financial risk profile**

The financial risk profile is moderate marked by tangible net worth of Rs. 18.06 crore as on 31 March, 2017 (Provisional) as against Rs.14.88 crore as on 31 March, 2016. The tangible networth includes unsecured loans of Rs. 10.88 crore considered as quasi equity as on 31 March, 2017 (Provisional). The gearing (debt-to-equity ratio) stood at 0.53 times as on 31 March, 2017 (Provisional) as against 0.71 times as on 31 March, 2016. The total debt of Rs. 9.61 comprises term loan of Rs. 4.12 crore and working capital borrowings of Rs.5.49 crore as on 31 March, 2017. The interest coverage ratio (ICR) stood at 2.21 times in FY2017 (Provisional) compared to 1.59 times in FY2016. The net cash accruals to total debt (NCA/TD) stood at 0.21 times in FY2017 as against 0.12 times in FY2016.

- **Established track record of operations, experienced management**

The Lalani Group (LG) is engaged in the manufacturing and trading of grey fabric for more than two decades. The promoters, Mr. Moti Lal Lalani, Mr. Harak Chand Lalani and Mr. Pankaj Kumar Lalani have collective experience of around three decades in the textile industry.

Weaknesses

- **Moderate scale of operations, uneven revenues**

LG reported operating income of Rs. 41.04 crore in FY2017 (Provisional), Rs. 46.47 crore in FY2016 and Rs. 43.17 crore in FY2015. The uneven trend is mainly due to reduced demand from end users. The operating margins (EBIDTA) stood at 9.83 percent in FY2017 (Provisional), 7.63 percent in FY2016 and 5.69 percent in FY2015. The consistent improvement in EBITDA margins is on account of fall in raw material cost as a percentage of sales.

- **Working capital intensive operations**

LG's operations are working capital intensive marked by high gross current assets (GCA) of 211 days in FY2017 as against 181 days in FY2016. This is on account of high debtor days of 118 days in FY2017 and 110 days in FY2016. The high inventory days stood at 65 in FY2017 as against 50 in

FY2016. The creditor days stood at 45 in FY2017 as against 64 in FY2016. Further, the average utilisation of working capital limits has been ~61 percent for the last six months ended June 2017.

• **Susceptibility of margins to volatility in raw material prices**

The major raw material is cotton and polyester yarn. Since raw material constituted around 89 per cent of the total cost of sales in FY2017, the operating margins are susceptible to changes in the prices of the aforementioned. Besides, the raw material prices are also influenced by the Minimum Support Price (MSP). Cotton prices have been highly volatile in the past. Hence, adverse movements in cotton prices can impact profitability.

• **Highly fragmented and competitive industry**

The group operates in a highly fragmented industry with limited entry barriers wherein the presence of a large number of players in the unorganised sector limits its bargaining power with customers.

Analytical Approach

SMERA has consolidated the financial and business profiles of Lalani Suitings Private Limited (LSPL), Prakash Synthetics (PS), M R Fabrics (MRF) and Lalani Sulz Fab Private Limited (LSFPL) together referred to as the Lalani Group (LG). The consolidation is in view of the common ownership, similarities in the lines of business and operational linkages within the group.

Outlook: Stable

SMERA believes that the Lalani Group will maintain a stable outlook and benefit over the medium term from its promoters extensive industry experience. The outlook may be revised to 'Positive' if the company reports substantial growth in revenues and profitability while maintaining its financial risk profile and liquidity position. Conversely, the outlook may be revised to 'Negative' in case of steep decline in revenues, profitability or higher working capital requirements deteriorating the capital structure or liquidity position.

About the Rated Entity - Key Financials

For FY2016-17 (Provisional), the group registered profit after tax (PAT) of Rs.1.34 crore on operating income of Rs. 41.04 crore, compared with PAT of Rs. 0.53 crore on operating income of Rs. 46.67 crore in FY2015-16.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
03-Aug-2016	Cash Credit	Long Term	INR 2.5	SMERA BB- / Stable
	Term Loan	Long Term	INR 6.25	SMERA BB- / Stable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.50	SMERA BB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	6.25	SMERA BB- / Stable

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ABOUT SMERA

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