

Press Release

Lalani Suitings Private Limited

December 05, 2018



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) to the Rs. 8.75 crore bank facilities of Lalani Suitings Private Limited (LSPL). 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 of Lalani Suitings Private Limited (incorporated in 2002), Lalani Sulz Fab Private Limited (incorporated in 2007), Prakash Synthetics (established in 1991) and M. R. Fabrics (established in 1993). The operations are led by Mr. Moti Lal Lalani, Mr. Harak Chand Lalani and Mr. Pankaj Kumar Lalani. The operating capacity of the group stands at 3.5 lakh meters per month.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of Lalani Suitings Private Limited (LSPL), Lalani Sulz Fab private limited (LSFPL), Prakash Synthetic (PS) and M.R. Fabrics (MRF) together referred to as the 'Lalani Group'. The consolidation is in view of the similar line of business, operational and financial synergies and common management. Extent of Consolidation : Full.

Key Rating Drivers

Strengths

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

The Lalani Group (LG) was established in 1991, thus having an operational track record of over three 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. Hence, long track records of operations and vast experience of management has helped the group develop healthy relationship with its customers and suppliers. Acuité believes that LG will sustain its existing business profile on the back of established track record of operations and experienced management.

- **Moderate financial risk profile**

The financial risk profile of the group remained moderate marked by net worth of Rs.19.04 crore (includes quasi equity of Rs.11.98 crore) as on 31 March, 2018 as against Rs.15.25 crore (includes Rs.8.93 crore of quasi equity) as on 31 March, 2017. The gearing (debt-equity) stood at 0.53 times as on 31 March, 2018 as against 0.63 times as on 31 March, 2017. The total debt of Rs.10.02 crore as on 31 March, 2018 mainly comprises Rs.6.60 crore of working capital facility and Rs.3.42 crore of long term debt. Interest Coverage Ratio (ICR) stood at 2.01 times for FY2018 as against 2.07 times for FY2017. NCA/TD (Net Cash Accruals to Total Debt) ratio remained at 0.16 times in FY2018 and 0.18 times in FY2017. Debt to EBITDA stood at 2.61 times in FY2018 as against 2.33 times in FY2017.

Weaknesses

- **Moderate scale of operations**

LG reported operating income of Rs.46.56 crore in FY2018, Rs.44.72 crore in FY2017 and Rs.48.72 crore in FY2016. The group exhibits uneven trend in its operating income mainly due to reduced demand from end users. The operating margins (EBITDA) stood at 7.45 percent in FY2018 against 8.44 percent in FY2017. The decline in EBITDA margins is on account of increase in raw material cost as a percentage of sales.

• **Working capital intensive operations**

The group has working capital intensive nature of operations marked by Gross Current Assets (GCA) of 216 days for FY2018 as against 172 days for FY2017. This is mainly due to high debtors of 138 days for FY2018 as against 115 days for FY2017. The inventory days stood at 50 for FY2018 as against 59 days for FY2017. Acuité believes that the company's ability to maintain its working capital efficiently will remain a key to maintain stable credit profile.

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

The major raw material is cotton and polyester yarn. LG's margins are highly susceptible to changes in raw material prices. Price of cotton is stated by government through Minimum Support Price (MSP). However, the purchase price depends on the prevailing demand-supply situation which restricts bargaining power with the suppliers as well. Any adverse movement in cotton prices further impacts the operating performance of the group.

• **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 unorganized sector limits its bargaining power with customers.

Outlook: Stable

Acuité believes that Lalani Group will maintain a 'Stable' outlook and benefit over the medium term on the back of its promoters extensive industry experience. The outlook may be revised to 'Positive' if the group registers higher-than-expected growth in revenues while improving profitability along with improved financial risk profile. Conversely, the outlook may be revised to 'Negative' in case the group registers lower-than-expected growth in revenues and profitability or in case of deterioration in the financial risk profile or significant elongation in working capital cycle.

About the Rated Entity - Key Financials (Consolidated)

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	46.56	44.72	48.72
EBITDA	Rs. Cr.	3.47	3.77	3.53
PAT	Rs. Cr.	0.85	1.04	0.53
EBITDA Margin (%)	(%)	7.45	8.44	7.25
PAT Margin (%)	(%)	1.82	2.33	1.10
ROCE (%)	(%)	11.13	13.91	13.63
Total Debt/Tangible Net Worth	Times	0.53	0.63	1.10
PBDIT/Interest	Times	2.01	2.07	1.59
Total Debt/PBDIT	Times	2.61	2.33	3.08
Gross Current Assets (Days)	Days	216	172	158

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Trading Entities- <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-22.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
12-Oct-2017	Cash Credit	Long Term	2.50	ACUITE BB- / Stable (Reaffirmed)
	Term Loan	Long Term	6.25	ACUITE BB- / Stable (Reaffirmed)
03-Aug-2016	Cash Credit	Long Term	2.50	ACUITE BB- / Stable (Assigned)
	Term Loan	Long Term	6.25	ACUITE BB- / Stable (Assigned)

*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	3.05 (Enhanced from Rs. 2.50 Cr.)	ACUITE BB- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	2.84	ACUITE BB- / Stable (Reaffirmed)
Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.86	ACUITE BB- / Stable (Assigned)

Cash credit includes sublimit of book debts Rs. 2.00 crore up to 90 days.

Contacts

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About Acuité Ratings & Research:

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