

Press Release

Lucky Yarn Tex India Private Limited

24 January, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 103.00 Cr
Long Term Rating	SMERA BBB/Stable (Assigned)
Short Term Rating	SMERA A3+ (Assigned)

*Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB**' (**read as SMERA triple B**) and short-term rating of '**SMERA A3+**' (**read as SMERA A three plus**) on the Rs. 103.00 crore bank facilities of Lucky Yarn Tex India Private Limited (LYTIPL). The outlook is '**Stable**'.

LYTIPL incorporated in 2006 is an Erode-based integrated spinning and weaving unit promoted by Mr. P. Viswanathan, Mr. G .Doraisamy and Mr. G. Rajamanickam. The company is engaged in the manufacturing of viscose yarn, cotton yarn and blended fabric (i.e. blend of viscose yarn and cotton yarn). The fabrics division contributed around 67 percent to the total revenue of the company in FY2017, and cotton yarn - around 28 percent with the balance from viscose yarn. The manufacturing facility is located at Pallipalayam, Erode with spindle capacity of 40896 and 100 air jet looms.

LYTIPL has also set-up a windmill with installed capacity of 4.25 MW which caters to around 60 percent of the company's power requirements. The company procures cotton from local suppliers, viscose staple fiber from Grasim Industries Limited and group company, Mothi Spinners Private Limited.

List of key rating drivers and their detailed description

Strengths:

Established presence in the textile industry, promoter's extensive experience

LYTIPL is engaged in the manufacturing of viscose yarn, cotton yarn and blended fabric (i.e. blend of viscose yarn and cotton yarn) for more than a decade. The company is promoted by Mr. P. Viswanathan, Mr. G. Rajamanickam and Mr. G .Doraisamy who possess more than three decades of experience in the textile industry. The management is ably supported by a qualified and experienced second line of management. The company has integrated operations across the textile value chain and undertakes spinning and weaving. It sells to traders, garment and hosiery manufacturers in and around Erode, Tirupur, Ichalkaranji, Surat and Kolkata.

Around 85 per cent revenue of the company is derived from merchant exporters. LYTIPL is also part of the Mothi group of companies established in 1978 which consists of three companies namely, Shree Sakthi Vinayagar Weaves Private Limited (SSVWPL), Mothi Spinners Private Limited (MSPL) and Lucky Yarn Tex India Private Limited (LYTIPL). SMERA believes that the extensive experience of the promoters will strengthen the business over the medium term.

Healthy revenue growth and profitability

The revenues have grown significantly from Rs.129.36 crore in FY2016 to Rs. 201.86 crore in FY2017 on account of continuous capacity augmentation and partial outsourcing of the weaving activity. The fabric division reported around 65 percent growth in FY2017 over FY2016. The company reported revenue of Rs. 147.45 crore (Provisional) during April, 2017 to November, 2017. The net cash accruals stood at Rs. 22.06 crore for FY2017 as against Rs. 13.49 crore in the previous year.

The net block of the group increased from Rs. 58.18 crore as on 31 March, 2015 to Rs. 75.72 crore as on 31 March, 2017. The company has undertaken capex of Rs.28.65 crore to expand weaving capacity. The same is expected to be completed by March, 2018. Going forward, SMERA expects the company to benefit from the strong demand in the domestic and overseas segment.

Comfortable financial risk profile and liquidity profile

The company has comfortable financial risk profile marked by adjusted healthy tangible networth of Rs. 51.39 crore as on 31 March, 2017 as against Rs. 45.43 crore in the previous year. The adjusted gearing stood at 1.46 times as on 31 March, 2017 as against 1.39 times in the previous year. For arriving at tangible networth, unsecured loan of Rs. 3.25 crore as on 31st March, 2017 is considered as quasi equity as the same is subordinated to bank debt.

The Interest Coverage Ratio stood at 3.60 times for FY2017 as against 2.90 times in the previous year. The Debt Service Coverage Ratio stood at 1.78 times for FY2017 as against 1.37 times in the previous year. The adjusted Total outside Liabilities to Tangible networth (TOL/TNW) stood at 2.30 times as on 31 March, 2017 as against 1.91 times in the previous year. Further, LYTIPL has ongoing debt funded expansion capex plan of ~ Rs. 28.65 crore partly funded by debt of ~ Rs. 20.06 crore and the remaining through internal accruals.

The operating cycle of the company is elongated as the Gross Current Asset (GCA) days stood at 150 for FY2016 as against 156 days for FY2017. However, the company maintains comfortable liquidity profile as the average cash credit limit utilisation stood at around 86 percent for the last six months ended November, 2017.

Going forward, SMERA expects the overall financial metrics of the company to remain comfortable for rating category.

Weaknesses:

Susceptible to changes in input prices

The profitability is susceptible to changes in the prices of the raw material i.e. viscose and cotton fibre. The prices of viscose yarn are influenced by movement in prices of its substitutes i.e. cotton and polyester staple fibres. The prices of cotton are highly dependent on agro-climatic conditions. Besides, cotton prices are fixed by the government through Minimum Support Price (MSP). The prices of polyester yarn are linked to crude oil prices. However, the purchase price depends on the prevailing demand-supply situation which limits bargaining power with suppliers as well.

The profitability of the company is also susceptible to the cost of power which constitutes around 12 percent of the total cost for a textile unit. SMERA believes that LYTIPL should be able to maintain its operating profitability around existing levels notwithstanding the volatility in prices of its key inputs, on the back of its established position in the domestic market.

High supplier concentration

The prices of the main raw material i.e. viscose fibre are relatively stable as compared to cotton prices. However, the group is exposed to high supplier concentration risk as Grasim Industries Limited is the only supplier of viscose fibre in the country. The high supplier concentration limits its bargaining power with suppliers and high dependence for raw material.

Intense competition in the textile industry

The company is exposed to intense competition in the highly fragmented textile industry. The company also faces stiff competition from organised and unorganised players in the domestic market and also from other nations wherein production costs are lower, offer cheap labour with ease of-doing business.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of Lucky Yarn Tex India Private Limited.

Outlook: Stable

SMERA believes that the outlook on the LYTIPL will remain stable over the medium term on account of the established presence and extensive experience of the promoters in the textile industry. The outlook may be revised to 'Positive' in case the company registers significant growth in its revenue and profitability while maintaining comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' in case of stretched working capital cycle or deterioration in its financial risk profile due to higher than expected debt funded capex plan.

About the Rated Entity -Key Financials

Particulars	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	201.86	129.36	148.63
EBITDA	Rs. Cr.	29.37	21.34	21.06
PAT	Rs. Cr.	5.96	3.91	2.68
EBITDA Margin	(%)	14.55	16.49	14.17
PAT Margin	(%)	2.95	3.02	1.80
ROCE	(%)	11.52	11.74	23.00
Total Debt/Tangible Net Worth	Times	1.46	1.39	1.38
PBDIT/Interest	Times	3.60	2.90	2.63
Total Debt/PBDIT	Times	2.51	2.89	2.43
Gross Current Assets (Days)	Days	150	156	122

Applicable Criteria

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

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years: Not Applicable

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	21.50	SMERA BBB/ Stable
Term loan I	Not Applicable	Not Applicable	Not Applicable	6.32	SMERA BBB/ Stable
Term loans II	Not Applicable	Not Applicable	Not Applicable	3.13	SMERA BBB/ Stable
Term loans III	Not Applicable	Not Applicable	Not Applicable	12.10	SMERA BBB/ Stable
Term loans IV	Not Applicable	Not Applicable	Not Applicable	2.14	SMERA BBB/ Stable
Term loans V	Not Applicable	Not Applicable	Not Applicable	2.96	SMERA BBB/ Stable
Term loans VI	Not Applicable	Not Applicable	Not Applicable	11.51	SMERA BBB/ Stable
Term loans VII	Not Applicable	Not Applicable	Not Applicable	21.30^	SMERA BBB/ Stable
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	12.50	SMERA A3+
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	1.80	SMERA A3+
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	7.74	SMERA BBB/ Stable

[^]Includes sublimit of buyer's credit Rs. 12.65 crore.

Note on complexity levels of the rated instrument:

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

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ABOUT SMERA

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