

Press Release

Lucky Yarn Tex India Private Limited

July 31, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.148.00 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A3+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and short term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) to the Rs.148.00 crore bank facilities of LUCKY YARN TEX INDIA PRIVATE LIMITED (Lucky yarn). The outlook is '**Stable**'.

The rating reaffirmation reflects sustenance of the revenue growth in line with the estimates backed by diversified product profile and experience of the promoters. Lucky yarn reported a revenue of Rs.334.83 crore for FY2019 (provisional); a growth of about 22 percent over FY2018. Further, the ratings continue to reflect the experienced management and established track record of operations and comfortable financial risk profile. However, it is constrained by working capital intensive operations and susceptibility of margins to volatility in raw material prices.

Lucky Yarn Tex India Private Limited (Lucky yarn), incorporated in 2006, is primarily engaged in manufacturing of cotton, viscose, blended yarns and fabrics. Lucky yarn's manufacturing facility is located at Pallipalayam (Tamil Nadu). It has spindle capacity of 40896 spindles, 4 vortex, and 150 Air jet looms. Lucky Yarn has wind turbine generators with installed capacity of 8.25 mega-watts (MW) in Tamil Nadu which supports about 30 to 35 percent of its power requirement.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of Lucky Yarn to arrive at the rating.

Key Rating Drivers

Strengths

- Experience of promoters and established track record of operations**

Lucky Yarn is engaged in the manufacturing of viscose yarn, cotton yarn and blended fabric (i.e. blend of viscose 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 top management is ably supported by a well-qualified and experienced team of 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.

Lucky Yarn is a part of Mothi group of companies which includes - Shree Sakthi Vinayagar Weaves Private Limited (SSPL) – rated at 'ACUITE BB-/A4+', Mothi Spinners Private Limited (MSPL) – rated at 'ACUITE A-/ACUITE A2+' and Lucky Yarn Tex India Private Limited (Lucky Yarn). Lucky Yarn enjoys long-standing relationship with its customers and suppliers. It resulted in healthy growth in revenues at a compound annual growth rate (CAGR) of 37 percent over four years ending FY2019 (Provisional). Lucky Yarn reported revenue of Rs.334 Crore in FY2019, which grew by 37 percent as against Rs.263.60 Crore in FY2018 and Rs.201.86 Crore in FY2017; backed by repeat orders from the customers and regular capex to enhance the capacity. Acuite believes that the industry experience and domain knowledge of the management and long standing relationship with its clientele are expected to support in improving its business risk profile further over the medium term.

• **Comfortable financial risk profile**

Lucky yarn's financial risk profile is comfortable marked by comfortable capital structure and debt protection metrics. Net worth is healthy at Rs.71.24 crore (including quasi equity of Rs.6.01 crore) as on 31 March, 2019 (Provisional) vis-à-vis Rs.61.12 crore as on 31 March, 2018; improved owing to accretion to reserves. Its gearing (debt -equity) is comfortable at 1.54 times as on March 31, 2019 as against 1.36 times as on March 31, 2018. The total outside liabilities to total net worth (TOL/TNW) stood moderate at 2.30 times as on March 31, 2019 (Provisional) as against 2.15 times as on March 31, 2018. Lucky Yarn has undertaken large capex of about Rs.55.00 crore, funded out of term loan of Rs.35 crore and rest through internal accruals and unsecured loans in FY2019 (Provisional) towards installing 2 MW windmills and installing 2 vortex machines and 50 looms. Further, the company has done routine capex of about Rs.8.00 crore for upgradation. Lucky yarn reported cash accruals of Rs.30.73 crore in FY2019 (Provisional). Cash accruals are expected to be Rs.35-45 Crs in FY2020-21, whereas its repayment obligations are expected to be Rs.15 Crs during the same period. Its debt protection metrics of net cash accruals to total debt (NCA/TD) and interest coverage ratio (ICR) are comfortable at 0.28 and 3.98 times in FY2019 (Provisional). Acuite believes that with improving topline, comfortable cash accruals and moderation in capex, the financial risk profile is expected to improve over the medium term.

Weaknesses

• **Susceptible to changes in input prices and high competition**

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 prices of the main raw material i.e. viscose fibre are relatively stable as compared to cotton prices. However, Lucky yarn 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. Acuite believes that Lucky yarn's 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. Further, the company is exposed to intense competition in the highly fragmented cotton industry. The company also faces stiff competition from organised and unorganised players in the domestic market and also from other nations that offer lower production costs, ease of-doing business and cheap labour.

• **Moderate working capital operations**

Operations of the company have shown moderate working capital management marked by gross current assets (GCA) at about 126 days in FY2019 (provisional) as against 148 days in FY2018; improved GCA is owing to moderate inventory and debtor levels of 55 and 66 days in FY2019 (Provisional) vis-à-vis 56 days and 82 days in FY2018, respectively. The payable terms stood at 68 days in FY2019 against 76 days in FY2018. This resulted in moderate utilisation of its bank lines at about 80 per cent over last six months through June 2019. Also, its current ratio is moderate at about 1.22 times as on March 31, 2019 as against 1.32 times as on March 31, 2018. Acuite believes that Lucky yarn's operations continue to be moderate working capital intensive basis the business cycle.

Liquidity

Lucky yarn's liquidity is adequate marked by comfortable cash accruals to its debt obligations, unutilised bank lines of about 20 per cent and ballooned loan repayment system. It reported cash accruals of Rs.30.7 crore in FY2019 (Provisional); its accruals are expected in the range of Rs.35-45 Crs in FY2020-21 against its repayment obligations of Rs.15.00 Crs during the same period. It does regular capex of about Rs.5.00 crore for maintenance and modernisation. Comfortable cushion in its accruals and moderate working capital operations reflected by its gross current asset (GCA) days of 126 in FY 2019(Provisional) lead to moderate utilisation of its limits at about 80 percent during the last six months period ended June 2019. The current ratio of Lucky yarn is moderate at 1.22 times as on March 31, 2019(Provisional). Acuite believes that liquidity profile of Lucky yarn continues to be adequate on account of comfortable cash accruals, moderation in capex and moderate working capital management.

Outlook: Stable

Acuite believes that Lucky yarn will maintain a 'Stable' business risk profile over the medium term supported by experienced management and long track record of operations. The outlook may be revised to 'Positive' in case the company registers healthy growth in its revenues while sustaining the profitability and capital structure. Conversely, the outlook may be revised to 'Negative' in case of any significant debt-funded capex, or any further decline in its profitability leading to deterioration in the company's financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	263.60	201.86	129.36
EBITDA	Rs. Cr.	33.67	29.37	21.34
PAT	Rs. Cr.	3.97	5.96	3.91
EBITDA Margin	(%)	12.77	14.55	16.49
PAT Margin	(%)	1.51	2.95	3.02
ROCE	(%)	9.98	11.52	11.74
Total Debt/Tangible Net Worth	Times	1.36	1.46	1.39
PBDIT/Interest	Times	3.76	3.60	2.90
Total Debt/PBDIT	Times	2.44	2.51	2.89
Gross Current Assets (Days)	Days	148	150	156

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

None

Any other information

None

Applicable Criteria

- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

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

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
05-Dec-2018	Cash Credit	Long Term	21.50	ACUITE BBB/Stable (Reaffirmed)
	Term Loan I	Long Term	1.52	ACUITE BBB/Stable (Reaffirmed)
	Term Loan II	Long Term	2.32	ACUITE BBB/Stable (Reaffirmed)
	Term Loan III	Long Term	8.11	ACUITE BBB/Stable (Reaffirmed)
	Term Loan IV	Long Term	1.81	ACUITE BBB/Stable (Reaffirmed)
	Term Loan V	Long Term	1.80	ACUITE BBB/Stable (Reaffirmed)
	Term Loan VI	Long Term	7.53	ACUITE BBB/Stable (Reaffirmed)
	Term Loan VII	Long Term	20.71	ACUITE BBB/Stable (Reaffirmed)

	Term Loan VIII	Long Term	19.34	ACUITE BBB/Stable (Assigned)
	Term Loan IX	Long Term	1.05	ACUITE BBB/Stable (Assigned)
	Proposed Term Loan	Long Term	25.00	ACUITE BBB/Stable (Assigned)
	Proposed Term Loan	Long Term	9.85	ACUITE BBB/Stable (Assigned)
	Proposed Cash Credit	Long Term	10.00	ACUITE BBB/Stable (Assigned)
	Letter of Credit	Short Term	12.50	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short Term	3.80	ACUITE A3+ (Reaffirmed)
	Forward Contracts	Short Term	0.54	ACUITE A3+ (Assigned)
	Proposed Bank Facility	Long Term	0.62	ACUITE BBB/Stable (Assigned)
24-Jan-2018	Cash Credit	Long Term	21.50	ACUITE BBB/Stable (Assigned)
	Term Loan I	Long Term	6.32	ACUITE BBB/Stable (Assigned)
	Term Loan II	Long Term	3.13	ACUITE BBB/Stable (Assigned)
	Term Loan III	Long Term	12.10	ACUITE BBB/Stable (Assigned)
	Term Loan IV	Long Term	2.14	ACUITE BBB/Stable (Assigned)
	Term Loan V	Long Term	2.96	ACUITE BBB/Stable (Assigned)
	Term Loan VI	Long Term	11.51	ACUITE BBB/Stable (Assigned)
	Term Loan VII	Long Term	21.30 [^]	ACUITE BBB/Stable (Assigned)
	Letter of Credit	Short Term	12.50	ACUITE A3+ (Assigned)
	Bank Guarantee	Short Term	1.80	ACUITE A3+ (Assigned)
	Proposed Term Loan	Long Term	7.74	ACUITE BBB/Stable (Assigned)

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

***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	21.50	ACUITE BBB/Stable (Reaffirmed)
Term Loan I	Not Applicable	Not Applicable	Not Applicable	1.52	ACUITE BBB/Stable (Reaffirmed)
Term Loan II	Not Applicable	Not Applicable	Not Applicable	2.32	ACUITE BBB/Stable (Reaffirmed)
Term Loan III	Not Applicable	Not Applicable	Not Applicable	8.11	ACUITE BBB/Stable (Reaffirmed)

Term Loan IV	Not Applicable	Not Applicable	Not Applicable	1.81	ACUITE BBB/Stable (Reaffirmed)
Term Loan V	Not Applicable	Not Applicable	Not Applicable	1.80	ACUITE BBB/Stable (Reaffirmed)
Term Loan VI	Not Applicable	Not Applicable	Not Applicable	7.53	ACUITE BBB/Stable (Reaffirmed)
Term Loan VII	Not Applicable	Not Applicable	Not Applicable	20.71	ACUITE BBB/Stable (Reaffirmed)
Term Loan VIII	Not Applicable	Not Applicable	Not Applicable	19.34	ACUITE BBB/Stable (Reaffirmed)
Term Loan IX	Not Applicable	Not Applicable	Not Applicable	1.05	ACUITE BBB/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	9.20	ACUITE BBB/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB/Stable (Reaffirmed)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	1.27 (revised from 0.62)	ACUITE BBB/Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	12.50	ACUITE A3+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.36 (revised from 3.80)	ACUITE A3+ (Reaffirmed)
Proposed Short Term Loan	Not Applicable	Not Applicable	Not Applicable	1.98	ACUITE A3+ (Assigned)

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