

Press Release

Lucky Yarn Tex India Private Limited

January 07, 2020

Rating Reaffirmed Assigned and Withdrawn



Total Bank Facilities Rated*	Rs.157.00 Cr. (Enhanced from Rs. 148.00 Crore)
Long Term Rating	ACUITE BBB/ Outlook: Stable (Reaffirmed & Assigned)
Short Term Rating	ACUITE A3+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed and assigned 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.157.00 crore bank facilities of LUCKY YARN TEX INDIA PRIVATE LIMITED (LYTI). The outlook is '**Stable**'.

LYTI, incorporated in 2006, is an Erode-based integrated spinning and weaving unit promoted by Mr. G. Rajanickam and family. The company is engaged in the manufacturing of viscose yarn and blended fabric (i.e. blend of viscose yarn and cotton yarn). The fabrics division contributed around 46 percent to the total revenue of the company in FY2019, and viscose yarn - around 53 percent. The manufacturing facility is located at Pallipalayam (Erode). LYTI is part of the Mothi group of companies which was established in 1978. It consists of companies namely Mothi Spinners Private Limited (MSPL) (ACUITE A-/Stable/A2+), Shree Sakthi Vinayagar Weaves Private Limited (SSVWPL) (ACUITE BB-/Stable/A4+), Lucky Weaves India and Lucky Yarn Tex India Private Limited (LYTI).

Analytical Approach

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

Key Rating Drivers

Strengths

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

LYTI is engaged in the manufacturing of viscose 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 have 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 enjoys long-standing relationship with its customers and suppliers. It resulted in healthy growth in revenues, it reported revenue of Rs.335.95 Crore in FY2019, which grew by ~27 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 the business risk profile over the near to medium term.

- Healthy financial risk profile**

LYTI's financial risk profile was healthy marked by prudent capital structure and debt protection metrics. Net worth stood healthy at Rs.70.38 crore (including quasi equity of Rs. 9.33 crore) as on 31 March, 2019 vis-à-vis Rs.61.12 crore as on 31 March, 2018; improvement in networth was driven by healthy accretion to reserves. Its gearing (debt -equity) is comfortable at 1.56 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 2.33 times as on March 31, 2019 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 towards installing windmills, vortex machines and looms. Lucky yarn reported cash accruals of Rs.32.32 crore in FY2019, whereas its repayment obligations are expected to be Rs.15 Crs during the same period, Cash accruals are expected to be Rs.35-45 Crs in FY2020-21. Its debt protection metrics of net cash accruals to total debt (NCA/TD) and interest coverage ratio (ICR) are comfortable at 0.30 and 4.01 times in FY2019.

Acuite expects the financial risk profile of LYTI to remain healthy on the back of steady accruals from operations and managements philosophy of adopting a judicious approach to debt funded capex.

Weaknesses

- **Moderate working capital operations:**

Operations of the company have shown moderate working capital management marked by gross current assets (GCA) at about 134 days in FY2019 as against 148 days in FY2018; improved GCA is owing to moderate inventory levels of 28 days in FY2019 vis-à-vis 56 days in FY2018, respectively. However increase in recoverable from governmental authorities, has kept the company's working capital requirements high. Short term working capital bank lines were ~93 percent over last six months through November 2019. Its current ratio stood at 1.34 times as on March 31, 2019 as against 1.32 times as on March 31, 2018.

Acuite believes that LYTI's operations continue to be moderate working capital intensive basis the business cycle.

- **Susceptibility of operating performance to input price volatility and increasing competition:**

Leading players like LYTI depend on domestic VSF producers like Grasim and imports for their raw material requirements. The profitability is susceptible to changes in the prices of these raw material i.e. viscose staple fibre (VSF), any adverse price movement are likely to impact the operating margins of VFY manufacturers. Recently the industry has been facing competition from imports of VFY from countries like China which has impacted the margins of players. While the leading domestic players of VFY, have been negotiating with the government for tariff protection against these imports, they have also negotiated with Grasim for lowering input prices. Since some of these players are key clients for Grasim, it has revised its prices of VSF to support the trade and compete effectively against these imports.

The operating performance of players of VSY players will be linked to their ability to maintain optimal cost efficiency and scale up their operations while maintaining their margins and managing their working capital requirements efficiently. The regulatory environment governing imports of both raw material i.e. VSF and the end product VFY shall be critical. The ability of LYTI to maintain and improve its operating margins in the developing operating framework will be a key rating monitorable.

Rating Sensitivities

- Scaling up of operations, while maintaining operating margins,
- Movement in capital structure
- Working capital Cycle.
- Regulatory environment for imports of yarn.

Material Covenants

None

Liquidity: Adequate

LYTI's liquidity is adequate marked by comfortable cash accruals to its debt obligations. It reported cash accruals of Rs.32.32 crore in FY2019 against its repayment obligations of Rs.15.00 Crs during the same period; going forward its accruals are expected in the range of Rs.35-45 Crs over near to medium term. Comfortable cushion in its accruals and moderate working capital operations reflected by its gross current asset (GCA) days of 134 in FY 2019 lead to moderate utilisation of its limits at about 80 percent during the last six months period ended September 2019. The current ratio of Lucky yarn is moderate at 1.34 times as on March 31, 2019. Acuite believes that liquidity profile of Lucky yarn continues to be adequate on account of comfortable cash accruals and moderate working capital management.

Outlook: Stable

Acuité 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	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	335.95	263.60
PAT	Rs. Cr.	5.76	3.97
PAT Margin	(%)	1.71	1.51
Total Debt/Tangible Net Worth	Times	1.56	1.36
PBDIT/Interest	Times	4.01	3.76

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
31st July 2019	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 (Reaffirmed)
	Term Loan IX	Long Term	1.05	ACUITE BBB/Stable (Reaffirmed)
	Term Loan	Long Term	25.00	ACUITE BBB/Stable (Reaffirmed)

	Term Loan	Long Term	9.20	ACUITE BBB/Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	10.00	ACUITE BBB/Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	1.27 (revised from 0.62)	ACUITE BBB/Stable (Reaffirmed)
	Letter of Credit	Short term	12.50	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short term	2.36 (revised from 3.80)	ACUITE A3+ (Reaffirmed)
	Proposed Bank Facility	Short term	1.98	ACUITE A3+ (Assigned)
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)
	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)

24-Jan-2018	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	31.50 (enhanced from Rs. 21.50 Crore)	ACUITE BBB/Stable (Reaffirmed)
Term Loan I	Not Applicable	Not Applicable	Not Applicable	1.52	ACUITE BBB/Stable (Withdrawn)
Term Loan II	Not Applicable	Not Applicable	Not Applicable	0.01	ACUITE BBB/Stable (Reaffirmed)
Term Loan III	Not Applicable	Not Applicable	Not Applicable	0.33	ACUITE BBB/Stable (Reaffirmed)
Term Loan IV	Not Applicable	Not Applicable	Not Applicable	0.47	ACUITE BBB/Stable (Reaffirmed)
Term Loan V	Not Applicable	Not Applicable	Not Applicable	1.80	ACUITE BBB/Stable (Withdrawn)
Term Loan VI	Not Applicable	Not Applicable	Not Applicable	7.53	ACUITE BBB/Stable (Withdrawn)
Term Loan VII	Not Applicable	Not Applicable	Not Applicable	20.60	ACUITE BBB/Stable (Reaffirmed)
Term Loan VIII	Not Applicable	Not Applicable	Not Applicable	9.67	ACUITE BBB/Stable (Reaffirmed)
Term Loan IX	Not Applicable	Not Applicable	Not Applicable	0.01	ACUITE BBB/Stable (Reaffirmed)
Term Loan X	Not Applicable	Not Applicable	Not Applicable	34.82	ACUITE BBB/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB/Stable (Reaffirmed)
Term Loan XI	Not Applicable	Not Applicable	Not Applicable	8.42	ACUITE BBB/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	10.60	ACUITE BBB/Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.71	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	ACUITE A3+ ((Reaffirmed)

Contacts

Analytical	Rating Desk
Vinayak Nayak Vice President – Rating Operations Tel: 022-49294071 vinayak.nayak@acuite.in Salome Farren Analyst - Rating Operations Tel: 022-49294072 salome.farren@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294021 rating.desk@acuite.in

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