

## Press Release

### Lucky Yarn Tex India Private Limited

August 27, 2020



#### Rating Reaffirmed

<b>Total Bank Facilities Rated*</b>	Rs. 157.00 Cr.
<b>Long Term Rating</b>	ACUITE BBB/ Outlook: Stable (Reaffirmed)
<b>Short Term Rating</b>	ACUITE A3+ (Reaffirmed)

\* Refer Annexure for details

#### Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) and the short-term rating of '**ACUITE A3+**' (**read as ACUITE A three plus**) on the Rs. 157.00 Cr bank facilities of Lucky Yarn Tex India Private Limited. The outlook is '**Stable**'.

The rating reaffirmation is based on the established track record of operations with rich experience of promoters in the same line for over three decades. Acuité draws comfort from the level of operational capacity of LYTI (at 40,896 spindles, 10 vortexes, 150 air-jet looms and 10.25 MW windmill for captive purpose) which mitigates the reliance on manpower to a large extent; besides, the company also has sufficient power assets that ensures sustainability of the operating performance. Acuité believes with automated process and lower reliance over manpower has benefited the company to restart its operations after the relaxations on lockdowns. Further, the reaffirmation also factors in the strong liquidity position of LYTI marked by healthy cash accruals against the repayment obligations. The ratings, however, remain constrained at the same level due to the near-term impact of the COVID pandemic and the continuing lockdown from both the demand and supply perspectives in the textile industry.

Lucky Yarn Tex India Private Limited (LYTI) was incorporated in the year 2006 as an integrated spinning and weaving unit in Erode Tamil Nadu. The company is engaged in manufacturing of viscose yarn, cotton yarn and fabric. The company's manufacturing facility is located in Pallipalayam, Erode, Tamil Nadu with a total spindle capacity of 40,896 spindles, 10 vortexes and 150 air jet looms. LYTI also has set-up windmill with total installed capacity of 10.25 MW which caters to around 36 to 40 percent of the company's power requirement.

#### Analytical Approach

Acuité has taken the standalone approach while assessing the business and financial risk profile of LYTI to arrive at the rating.

#### Key Rating Drivers

##### Strengths

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

LYTI is engaged in the manufacturing of viscose yarn and blended fabric (i.e. a 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. LYTI enjoys long-standing relationship with its customers and suppliers. It resulted in healthy growth in revenues, it reported revenue of Rs.386.10 Cr in FY2020, which grew by ~24 percent as against Rs.202 Cr in FY2017; backed by repeat orders from the customers and regular capex to enhance and refurbish the capacity. Acuité 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**

LWPL's financial risk profile is moderate, marked by moderate net worth, moderate gearing and comfortable debt protection metrics. The tangible net worth stood at Rs.76.96 Cr as on March 31, 2020. The growth in net worth is fueled by equity capital infused by the promoters of Rs.1.4 Cr as on March 31, 2020, coupled with the infusion of quasi-equity of Rs.3.70 Cr, and healthy accretion to reserves. The Gearing and Total outside Liabilities to Tangible net worth (TOL/TNW) stood at 1.84 times and 2.26 times, respectively, as on March 31, 2020 as compared to 1.56 times and 2.33 times, respectively, in the previous year. The total debt stood at Rs.141.61 Cr as on March 31, 2020, which comprises of long-term debt of Rs.102.69 Cr and short-term debt of Rs.38.92 Cr. The gearing is expected to improve on account of no huge debt-funded capital expenditure plans.

LWPL's profitability margin stood in the range of 12-14 percent over the last three year ended FY2020. The profitably levels vis-à-vis moderate debt level has resulted in comfortable debt protection metrics. The interest coverage ratio stood (ICR) and debt service coverage ratio (DSCR) stood at 4.40 and 2.31 times respectively for FY2020 compared to 4.01 times and 2.10 times, respectively, in the previous year. The company reported net cash accrals of Rs.43.51 Cr in FY2020 vis-à-vis repayment obligations of Rs.11.24 Cr. The net cash accrals to total debt (NCA/TD) stood at 0.31 times in FY2020. Acuité expects the financial risk profile to remain healthy over the medium term on account of no significant debt funded capital expenditure supported by moderate profitability margins.

## Weaknesses

- **Moderation in working capital operations**

The operations of the company have shown improvement in working capital management marked by gross current assets (GCA) of 118 days for FY2020 as against 134 days for FY2019; improved GCA is owing to prudent inventory management exhibited by 26 days in FY2020 vis-à-vis 28 days in FY2019, respectively. The receivable days stood at 76 days in FY2020 against 82 days in FY2019. Increase in recoverable from government authorities has kept the short-term working capital bank lines utilised at 91 percent over the last six months through June-20. In FY2021, keeping in light the outbreak of COVID – 19 and the subsequent announcement of lockdown, the management has judiciously focused on quicker collections to aid the cash inflows commensurate to its fixed operation cost and debt servicing. Acuité believes the maintenance of working capital operation level will remain key credit monitorable.

- **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. With recent trade dynamics of the market, India is expected to become a greater producer of VSY. 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 materials, 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.

- **Intense competition in textile industry**

The textile industry in India is highly fragmented and competitive marked by the presence of a large number of organised and unorganised players. LYTI is exposed to intense competition from both domestic players as well as the established players in the overseas market. The slowdown and the shifts in consumption patterns due to the outbreak of COVID – 19 and the subsequent lockdown can also have an impact on the operations in the near term. Further, margins are highly susceptible to changes in raw material prices, which restricts bargaining power with the suppliers as well.

### Rating Sensitivities

- Scaling up operations while achieving sustained improvement in topline and profitability margins
- Any further stretch in working capital operations leading to liquidity constraints

### Material Covenants

1. TOL/TNW < 3.0x
2. ICR > 2.0x
3. DSCR > 1.5x

### Liquidity: Adequate

The liquidity of the company is adequate, marked by healthy net cash accruals against its debt repayments. Net cash accruals stood at Rs.43.51 Cr in FY2020 against Rs.11.24 Cr of repayment obligations corresponding to it. Further, net cash accruals are estimated to remain around Rs.32 Cr – Rs.40 Cr during 2021-23, while its repayment obligations are expected to be Rs.16.28 – Rs.17.97 Cr; which gives adequate comfort for the incremental working capital requirements in the medium term. However, due to moderate working capital operations, LYTI's bank lines remain highly utilised at 91 percent through six months ending June-20. The company has lending arrangements with two lenders and it did not avail moratorium for debt servicing as per the RBI Guidelines from one of the lenders and pre-paid loan obligations for the other lender. The current ratio stood at 1.51 times as on March 31, 2020. The Company also has unencumbered cash and bank balance of Rs.0.23 Cr as on March 31, 2020. Acuité believes the liquidity of LYTI is expected to remain adequate on account of healthy cash accruals against debt repaying obligations and moderate working capital management.

### Outlook: Stable

Acuité believes that LYTI will maintain a 'Stable' outlook over the medium term supported by experienced promoters and group's established presence in the textile segment. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected revenues and profit margins, leading to deterioration in financial risk profile and or any further deterioration in working capital.

### About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	386.10	335.95
PAT	Rs. Cr.	8.91	5.76
PAT Margin	(%)	2.31	1.71
Total Debt/Tangible Net Worth	Times	1.84	1.56
PBDIT/Interest	Times	4.40	4.01

### 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-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>

### Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

### Rating History (Upto last three years)

Date	Name of Instrument/Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
07-Jan-2020	Cash Credit	Long Term	31.50	ACUITE BBB/Stable (Reaffirmed)
	Term Loan I	Long Term	1.52	ACUITE BBB (Withdrawn)
	Term Loan II	Long Term	0.01	ACUITE BBB/Stable (Reaffirmed)
	Term Loan III	Long Term	0.33	ACUITE BBB/Stable (Reaffirmed)
	Term Loan IV	Long Term	0.47	ACUITE BBB/Stable (Reaffirmed)

31-July-2019	Term Loan V	Long Term	1.80	ACUITE BBB (Withdrawn)
	Term Loan VI	Long Term	7.53	ACUITE BBB (Withdrawn)
	Term Loan IX	Long Term	20.60	ACUITE BBB/Stable (Reaffirmed)
	Term Loan VIII	Long Term	9.67	ACUITE BBB/Stable (Reaffirmed)
	Term Loan	Long Term	0.01	ACUITE BBB/Stable (Reaffirmed)
	Term Loan X	Long Term	34.82	ACUITE BBB/Stable (Assigned)
	Term Loan	Long Term	25.00	ACUITE BBB/Stable (Reaffirmed)
	Term Loan XI	Long Term	8.42	ACUITE BBB/Stable (Reaffirmed)
	Term Loan	Long Term	10.60	ACUITE BBB/Stable (Reaffirmed)
	Proposed	Long Term	0.71	ACUITE BBB/Stable (Reaffirmed)
	Letter of Credit	Short Term	12.50	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short Term	2.36	ACUITE A3+ (Reaffirmed)
	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	Long Term	10.00	ACUITE BBB/Stable (Reaffirmed)
	Proposed	Long Term	1.27	ACUITE BBB/Stable (Reaffirmed)
	Letter of Credit	Short Term	12.50	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short Term	2.36	ACUITE A3+ (Reaffirmed)
	Proposed	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	Long Term	0.62	ACUITE BBB/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	31.50	ACUITE BBB/Stable (Reaffirmed)
Term Loan II	01-Feb-2010	Not Applicable	31-Mar-2020	0.01	ACUITE BBB/Stable (Reaffirmed)
Term Loan III	01-Feb-2010	Not Applicable	31-Mar-2020	0.33	ACUITE BBB/Stable (Reaffirmed)
Term Loan IV	01-May-2013	Not Applicable	31-Aug-2020	0.15	ACUITE BBB/Stable (Reaffirmed)
Term Loan IX	01-Mar-2017	Not Applicable	31-Mar-2025	20.53	ACUITE BBB/Stable (Reaffirmed)
Term Loan VIII	01-Jan-2016	Not Applicable	31-Mar-2024	9.48	ACUITE BBB/Stable (Reaffirmed)
Term Loan	01-Feb-2010	Not Applicable	31-Mar-2020	0.01	ACUITE BBB/Stable (Reaffirmed)
Term Loan X	01-Mar-2018	Not Applicable	31-Mar-2028	33.09	ACUITE BBB/Stable (Reaffirmed)
Term Loan	01-Feb-2020	Not Applicable	31-Dec-2026	21.17	ACUITE BBB/Stable (Reaffirmed)

Term Loan XI	01-Mar-2019	Not Applicable	31-Mar-2026	8.11	ACUITE BBB/Stable (Reaffirmed)
Term Loan	01-Sep-2019	Not Applicable	31-Mar-2025	10.60	ACUITE BBB/Stable (Reaffirmed)
Proposed	Not Applicable	Not Applicable	Not Applicable	7.16	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)

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## About Acuité Ratings & Research:

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