

## Press Release

L S Mills Limited

August 08, 2018

**Rating Assigned**



<b>Total Bank Facilities Rated*</b>	Rs. 352.00 Cr.
<b>Total Bank Facilities Rated*</b>	Rs. 342.00 Cr.
<b>Long Term Rating</b>	ACUITE A- / Outlook: Stable
<b>Short Term Rating</b>	ACUITE A2+
<b>Fixed Deposit</b>	Rs. 10.00 Cr.
<b>Fixed Deposit Rating</b>	ACUITE FA/ Outlook: Stable

\* Refer Annexure for details

### Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE A-**' (**read as ACUITE A minus**) and short term rating of '**ACUITE A2+**' (**read as ACUITE A two plus**) to the Rs. 342.00 crore bank facilities of L S MILLS LIMITED. Acuité has also assigned rating of '**ACUITE FA**' to the Rs. 10.00 crore fixed deposit programme. The outlook is '**Stable**'.

Incorporated in 1983, LSML is a family owned integrated business engaged in manufacturing of cotton yarn, fabrics and home-furnishing products. The company's manufacturing facility is located at Theni (Tamil Nadu). The products include fine-count cotton yarn of 60s-120s, fine thread count grey fabric and bed linen. LSML has an installed Spinning capacity of 150000 spindles, 108 In-house looms in its Weaving division, 13MW Windmill capacity and 6000 pieces per day of Made-Ups. Bed Linen is sold internationally under the brand name 'Airfeel' and in the domestic segment under the brand name 'Sleep Desire'.

### Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the LSML to arrive at the rating.

### Key Rating Drivers

#### Strengths

##### • Experienced management and established presence

Established in 1983, LSML is headed by Mr. S. Manivannan (Chairman) and his brother, Mr. L.S. Prabhaakaran (Managing Director). The management is equally supported by a team of more than 3000 qualified and experienced workforce. With an integrated spinning, weaving and fabric manufacturing facility with each division functioning as an independent profit centre. The company has an operational track record of more than three decades with a diversified product portfolio including fibre, yarn, fabric and made-ups. Extensive experience of the promoters in the textile industry has helped the company in maintaining healthy relations with some of the reputed players in the industry including Indo Count Industries Limited and Welspun India Limited among others. LSML's longstanding relationship with customers aids the company in securing repeat orders on a regular basis.

##### • Healthy financial risk profile

The financial risk profile continues to remain healthy marked by high net worth, moderate gearing and healthy debt protection measures. Tangible net worth stood at Rs.199.35 crore as on 31 March, 2018 as compared to Rs.173.89 crore as on 31 March, 2017. The improvement in net worth is attributable to healthy accretion to reserves over the period. Acuité believes that the net worth of the company will remain in the range of Rs.225.00 crore to Rs.290.00 crore over the medium term backed by its healthy revenue growth and stable operating margins. The gearing stood low at 0.95 times as on 31 March, 2018 as compared to 1.08 times in the previous year.

The total borrowings of Rs.188.70 crore as on 31 March, 2018 comprises of long term borrowings to the tune of Rs.43.99 crore and short term borrowings of Rs.144.71 crore. The net cash accruals stood at Rs.43.53 crore for FY2018 against debt repayment of ~Rs.10.00 crore. The interest coverage ratio (ICR) stood at 4.28 times in FY2018 as compared to 3.16 times in FY2017. The total outside liabilities to tangible net worth stood at 1.48 times as on 31 March, 2018 as against 1.59 times in the previous year. The company undertakes routine capex in the range of Rs.20-30 crore which are majorly funded by bank borrowings. Acuité, however, believes that the financial risk profile will continue to remain moderate on account of its healthy growth and stable operating margins.

### **Weaknesses**

- Susceptible to volatility in raw material prices and foreign exchange fluctuation risk**

The main raw material purchased by the company is cotton. Hence, the margins are susceptible to changes in cotton prices. Cotton being an agricultural commodity, the availability and price of the same is highly dependent on agro-climatic conditions. Despite the prevalence of Minimum Support Price (MSP), the purchase price depends on the prevailing demand-supply situation which limits bargaining power with the suppliers as well. However, the company has been able to maintain its operating margins in the range of 9.70 percent for FY2018 as against 9.88 percent for FY2017. The exports of the company constituted around 18 percent of the total sales. As a result, the business is exposed to fluctuations in foreign exchange rate. Acuité believes that LSML 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 and overseas markets.

- Moderately intensive working capital cycle**

LSML's operations are moderately working capital intensive reflected in the Gross Current Assets (GCA) of 152 days in FY2018 as compared to 126 days in FY2017. The GCA days are mainly dominated by inventory holding period of 80 days in FY2018, an increase from 69 days in FY2017. The collection period has remained in the range of 50 to 58 days from FY2016 to FY2018. This has led to higher bank line utilisation at ~85 percent for the last twelve months ended as on 30 May, 2018.

### **Outlook: Stable**

Acuité believes that the outlook of LSML will remain 'Stable' over the medium term on account of the promoters' extensive experience and established presence in the textile industry. The outlook may be revised to 'Positive' in case the company registers significant growth in revenue and profitability while effectively managing its working capital cycle. The outlook may be revised to 'Negative' in case of significantly lower than expected net cash accruals or lengthening of the working capital cycle; thereby resulting in deterioration in the financial risk profile or liquidity position of the group.

### **About the Rated Entity - Key Financials**

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	665.65	689.67	622.91
EBITDA	Rs. Cr.	64.60	68.16	82.25
PAT	Rs. Cr.	25.46	26.26	20.71
EBITDA Margin	(%)	9.70	9.88	13.20
PAT Margin	(%)	3.82	3.81	3.32
ROCE	(%)	12.14	14.47	38.67
Total Debt/Tangible Net Worth	Times	0.95	1.08	1.25
PBDIT/Interest	Times	4.28	3.16	1.94
Total Debt/PBDIT	Times	2.82	2.65	2.18
Gross Current Assets (Days)	Days	152	126	126

### **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>

#### **Note on complexity levels of the rated instrument**

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

#### **Rating History (Upto 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. Cr.)	Ratings/Outlook
Cash Credit-I	Not Applicable	Not Applicable	Not Applicable	85.00	ACUITE A- / Stable
Term loans-I	Not Applicable	Not Applicable	Not Applicable	5.79	ACUITE A- / Stable
Bills Discounting-I	Not Applicable	Not Applicable	Not Applicable	52.00	ACUITE A2+
Letter of credit	Not Applicable	Not Applicable	Not Applicable	70.00	ACUITE A2+
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A2+
Cash Credit-II	Not Applicable	Not Applicable	Not Applicable	38.00	ACUITE A- / Stable
Bills Discounting-II	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A2+
Term loans-II	Not Applicable	Not Applicable	Not Applicable	7.36	ACUITE A- / Stable
Cash Credit-III	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A- / Stable
Term loans-III	Not Applicable	Not Applicable	Not Applicable	34.05	ACUITE A- / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	27.80	ACUITE A- / Stable
Fixed Deposit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE FA/ Stable

Export Packing Credit of Rs.25.00 crore and Foreign Bill Discounting of Rs.15.00 crore is sublimit of Cash Credit-I.

Export Packing Credit of Rs.38.00 crore, WCDL of Rs.15.00 crore, Foreign Currency Loan of Rs.20.00 and Letter of Credit of Rs.28.00 crore is sublimit of Cash Credit-II.

Packing Credit of Rs.5.00 crore and Foreign Bill Discounting of Rs.10.00 crore is sublimit of Cash Credit-III.

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### About Acuité Ratings & Research:

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