

Press Release

L S Mills Limited

August 01, 2019



Rating Upgraded, Withdrawn and Assigned

Total Facilities Rated*	Rs. 390.00 Cr.
Total Bank Facilities Rated*	Rs. 380.00 Cr. (Enhanced from Rs. 342.00 crore)
Long Term Rating	ACUITE A / Outlook: Stable (Upgraded from ACUITE A-/Stable)
Short Term Rating	ACUITE A1 (Upgraded from ACUITE A2+)
Fixed Deposit	Rs. 10.00 Cr
Fixed Deposit Rating	ACUITE FA (Withdrawn)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE A**' (**read as ACUITE A**) from '**ACUITE A-**' (**read as ACUITE A minus**) and the short term rating to '**ACUITE A1**' (**read as ACUITE A one**) from '**ACUITE A2+**' (**read as ACUITE A two plus**) and assigned the long-term rating of '**ACUITE A**' (**read as ACUITE A**) on the Rs. 380.00 crore (enhanced from Rs. 342.00 crore) bank facilities of L S Mills Limited (LSML). The outlook is '**Stable**'.

Further, Acuité has withdrawn the rating of '**ACUITE FA**' (**read as ACUITE FA**) on the Rs. 10.00 crore fixed deposit programme of L S Mills Limited (LSML). The withdrawal is on account of client's request and in accordance of 'Acuité's policy on withdrawal'.

The rating upgrade is on account of improvement in the business and financial risk profile of LSML. The upgrade factors in robust capital structure and comfortable debt protection metrics. The operating income of the company registered a Y-o-Y growth of 16.37 per cent at Rs. 774.60 crore in FY 2019 as against Rs. 665.65 crore in the previous year. The operating margins improved to 10.31 per cent in FY2019 as against 9.70 per cent in FY2018, mainly on account of modernisation undertaken for the existing machinery, thereby resulting in overall efficiency of the company. Further, the rating also factors in healthy net cash accruals against its maturing debt obligations.

Tamil Nadu based LSML, incorporated in 1983, is a family owned integrated business engaged in manufacturing of cotton yarn, fabrics and home-furnishing products. The product range includes cotton yarn of counts 60s-120s, grey fabric and bed linen. LSML has an installed spinning capacity of 149204 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'. The company also exports its products under brand of 'Wamsuta' in countries including USA.

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 track record**

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, each division functions 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 longstanding relations with some of the reputed players in the industry including Indo Count Industries Limited and Welspun India Limited among others. LSML's longstanding relations with its existing customers and suppliers aid the company in securing repeat orders on a regular basis supported by timely availability of raw materials.

- Healthy financial risk profile**

The financial risk profile continues to remain healthy marked by high net worth, comfortable gearing and healthy debt protection measures. The Tangible net worth stood at Rs. 228.04 crore as on 31 March, 2019 as against Rs.199.35 crore as on 31 March, 2018 and 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.250.00 crore to Rs.300.00 crore over the medium term backed by its revenue visibility and stable operating margins. The gearing stood low at 0.89 times as on 31 March, 2019 as against 0.95 times as on 31 March, 2018 and 1.08 times in the previous year. The total borrowings of Rs.203.63 crore as on 31 March, 2019 comprises of long term borrowings to the tune of Rs. 50.38 crore and short term borrowings of Rs. 153.25 crore.

The net cash accruals stood at Rs.48.75 crore for FY2019 against debt repayment of ~Rs.8.23 crore. The net cash accruals are expected to remain in the range of Rs. 55.00-65.00 crore in the near term against repayment obligations of ~Rs. 11.00-12.00 crore. The interest coverage ratio (ICR) stood at 4.90 times in FY2019 as against 4.28 times in FY2018 and 3.16 times in FY2017. The DSCR stood at 1.89 times in FY2019 against 1.66 times in FY2018.

The total outside liabilities to tangible net worth stood at 1.61 times as on 31 March, 2019 as against 1.48 times as on 31 March, 2018. The company undertakes routine capex for modernisation and upgradation of machinery in the range of Rs.30-40 crore which are funded by bank borrowings as well as internal accruals. Acuité, however, believes that the financial risk profile will continue to remain healthy on account of its healthy revenue growth and stable operating margins.

Weaknesses

- Moderately intensive working capital cycle**

LSML's operations are moderately working capital intensive marked by Gross Current Assets (GCA) of 165 days in FY2019 as compared to 152 days in FY2018. The GCA days are mainly dominated by inventory holding period of 91 days in FY2019, an increase from 80 days in FY2018. The collection period has remained in the range of 58 to 60 days from FY2017 to FY2019. However, the company's reliance is higher on bank limit utilisation which stood at ~93.90 percent for the last six months ended as on June 2019. Acuité believes that efficient management of its working capital cycle will remain crucial to the company.

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

The main raw material purchased by the company is cotton. Cotton being an agricultural commodity by nature, the margins are susceptible to changes in cotton prices. Cotton 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 10.31 per cent in FY2019 as against 9.70 per cent for FY2018. The company is also dependent on imports from countries including Egypt, Austria and USA among others. The total imports constitute ~45 per cent of its total raw material requirement, it is thus exposed to fluctuation 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.

Liquidity Position:

LSML maintains adequate liquidity position marked by net cash accruals of Rs.48.75 crore in FY2019 as against long term debt obligations of Rs.11.90 crore over the same period. The company has a moderate working capital cycle marked by Gross Current Assets (GCA) of 165 days in FY2019 as compared to 152 days in FY2018. Further, the cash credit limit of the firm remained utilised at 93.90 percent during the last six months ended June, 2019. The current ratio of the company stood at 1.22 times as on March 31, 2019. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term backed by healthy net cash accruals and increasing revenues.

Outlook: Stable

Acuité believes that the outlook of LSML will remain 'Stable' over the medium term on account of the promoters' extensive experience, established presence in the textile industry and healthy financial risk profile. 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 company.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	774.60	665.65	689.67
EBITDA	Rs. Cr.	79.89	64.60	68.16
PAT	Rs. Cr.	28.70	25.46	26.26
EBITDA Margin	(%)	10.31	9.70	9.88
PAT Margin	(%)	3.70	3.82	3.81
ROCE	(%)	13.81	12.14	27.80
Total Debt/Tangible Net Worth	Times	0.89	0.95	1.08
PBDIT/Interest	Times	4.90	4.28	3.16
Total Debt/PBDIT	Times	2.52	2.82	2.65
Gross Current Assets (Days)	Days	165	152	126

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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>
- Fixed Deposit - <https://www.acuite.in/view-rating-criteria-35.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/criteria-complexity-levels.htm>
Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
08-Aug-2018	Cash Credit -I	Long Term	85.00	ACUITE A-/ Stable (Assigned)
	Term Loan	Long Term	5.79	ACUITE A-/ Stable (Assigned)
	Bills Discounting	Short Term	52.00	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	70.00	ACUITE A2+ (Assigned)
	Bank Guarantee	Short Term	2.00	ACUITE A2+ (Assigned)
	Cash Credit - II	Long Term	38.00	ACUITE A-/ Stable (Assigned)
	Bills Discounting	Long Term	10.00	ACUITE A2+ (Assigned)
	Term Loan	Long Term	7.36	ACUITE A-/ Stable (Assigned)
	Cash Credit -III	Long Term	10.00	ACUITE A-/ Stable (Assigned)
	Term Loan	Long Term	34.05	ACUITE A-/ Stable (Assigned)
	Proposed Bank Facility	Long Term	27.80	ACUITE A-/ Stable (Assigned)
	Fixed Deposit	Long Term	10.00	ACUITE FA/ Stable (Assigned)

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.

***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 (Upgraded from A-/ Stable)
Term loans	Not Applicable	Not Applicable	Not Applicable	20.71 (enhanced from 5.79)	ACUITE A / Stable (Upgraded from A-/ Stable)
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	52.00	ACUITE A1 (Upgraded from A2+)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	70.00	ACUITE A1 (Upgraded from A2+)
EPC	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A / Stable (Assigned)

Bank guarantee	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A1 (Upgraded from A2+)
Cash Credit -II	Not Applicable	Not Applicable	Not Applicable	38.00#	ACUITE A / Stable (Upgraded from A-/ Stable)
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A1 (Upgraded from A2+)
Term loans	Not Applicable	Not Applicable	Not Applicable	6.48	ACUITE A / Stable (Upgraded from A-/ Stable)
Cash Credit -III	Not Applicable	Not Applicable	Not Applicable	35.00@ (Enhanced from 10.00)	ACUITE A / Stable (Upgraded from A-/ Stable)
Term loans	Not Applicable	Not Applicable	Not Applicable	23.19	ACUITE A / Stable (Upgraded from A-/ Stable)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	17.62	ACUITE A / Stable (Upgraded from A-/ Stable)
Fixed Deposit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE FA (Withdrawn)

*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:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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