

Press Release

L S Mills Limited

D-U-N-S® Number: 85-911-6317

October 08, 2020



Rating Reaffirmed

| | |
|-------------------------------------|---|
| Total Bank Facilities Rated* | Rs. 395.00 Cr. (enhanced from Rs.380.00 crore) |
| Long Term Rating | ACUITE A/Outlook: Stable (Reaffirmed) |
| Short Term Rating | ACUITE A1 (Reaffirmed) |

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE A**' (**read as ACUITE A**) and the short term rating of '**ACUITE A1**' (**read as ACUITE A one**) on the Rs. 395.00 crore (enhanced from Rs.380.00 crore) bank facilities of L S Mills Limited (LSML). The outlook is '**Stable**'.

The rating is reaffirmed on account of the stable business and financial risk profile of the company along with improvement in profitability. The operating income of LSML stood at Rs. 725.27 crores in FY2020 as compared to Rs. 774.60 crore in FY2019, however, stood declined by 6.37 percent Y-o-Y due to impact of Covid-19. The company has achieved revenue of Rs. 271.89 crores in H1FY2021. The operating margins have also improved to 11.09 percent in FY2020 as against 10.31 percent in FY2019 and 9.70 percent in FY2018. The PAT margins stood improved at 4.12 percent in FY2020 as against 3.70 percent in FY2019. The ratings also factor in robust capital structure, healthy net cash accruals and comfortable debt protection metrics of LSML. The working capital cycle of the company stood improved, however, is moderately intensive in nature marked by Gross Current Assets (GCA) of 146 days in FY2020 as compared to 165 days in FY2019. The operations of company were impacted due to nationwide lockdown during Q1FY2021, has standardize the operations in the second quarter of FY2021.

About Company

LSML, incorporated in 1983, is a family-owned integrated business based of Tamil Nadu. The company is engaged in manufacturing of cotton yarn, fabrics and home-furnishing products. The 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, 4MW of solar plant 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 the brand of 'Wamsuta' in countries like the 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 company has an operational track record of more than three decades with a diversified product portfolio including fibre, yarn, fabric and made-ups. The management is equally supported by the second line of management and has a team of more than 3000 well qualified

- experienced workforce. With an integrated spinning, weaving and fabric manufacturing facility, each division functions as an independent profit centre. LSML's longstanding relations with its existing customers and suppliers aid the company in securing repeat orders on a regular basis supported by the timely availability of raw materials. Also, 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. Acuité believes that the company will benefit from establishing presence in textile industry and extensive experience of promoters.

- **Stable scale of operation and healthy order book**

The operating income of LSML stood at Rs. 725.27 crores in FY2020 as compared to Rs. 774.60 crore in FY2019, has declined by 6.37 percent Y-o-Y due to impact of Covid-19. The company has achieved revenue of Rs. 271.89 crores in H1FY2021. The decline in the scale of operations is on account of the reduction in trading revenues which stood at Rs. 69.55 crores in FY2020 as against Rs. 152.73 crores in FY2019. This has resulted in improvement in operating margins to 11.09 percent in FY2020 as against 10.31 percent in FY2019 and 9.70 percent in FY2018. The PAT margins stood improved at 4.12 percent in FY2020 as against 3.70 percent in FY2019. Further, the company has a healthy order book position of Rs.270.00 crore as on September 30, 2020, thus providing healthy revenue visibility over near term. Acuité believes, the company's operating performance will remain healthy on account of expected improvement in revenues and operating margins on account of change in sales mix, healthy order book position and increase in exports.

- **Healthy financial risk profile**

The financial risk profile continues to remain healthy marked by healthy net worth, comfortable gearing and healthy debt protection measures. The Tangible net worth stood at Rs. 257.91 crores as on 31 March 2020 as against Rs. 228.04 crore as on 31 March, 2019. The gearing (debt-equity) stood low at 0.77 times as on 31 March, 2020 as against 0.89 times as on 31 March, 2019. The total borrowings of Rs 199.24 crore as on 31 March, 2020 comprises of long term borrowings of Rs. 57.96 crore and short term borrowings, majorly in the form of working capital limits, of Rs. 141.28 crore. The net cash accruals stood at Rs. 50.27 crore for FY2020 against debt repayment of Rs. 14.60 crore. The net cash accruals are expected to remain in the range of Rs. 55.00-65.00 crore for the period FY2021-23 against the repayment obligations of ~Rs. 11.50-12.50 crore for the same period. The coverage indicators stood healthy, marked by interest coverage ratio (ICR) stood at 3.76 times in FY2020 as against 4.90 times in FY2019. The coverage ratio has seen a decline due to higher interest outgo, which stood at Rs. 21.56 crores in FY2020 as against Rs. 16.50 crores in FY2019. The DSCR stood at 1.89 times in FY2019 against 1.66 times in FY2018. The total outside liabilities to tangible net worth (TOL/TNW) stood at 1.20 times as on 31 March 2020 as against 1.61 times as on 31 March, 2019. Further, the company undertakes a routine capex for modernisation and upgradation of machinery in the range of Rs.30-40 crore which is partially funded by bank borrowings as well as internal accruals. Acuité, however, believes that the financial risk profile will continue to remain healthy despite routing capex, on account of expected healthy revenue growth and improvement in operating margins thus leading to improvement in net cash accruals of the company.

Weaknesses

- **Moderately intensive working capital cycle**

LSML's operations are moderately working capital intensive marked by Gross Current Assets (GCA) of 146 days in FY2020 as compared to 165 days in FY2019. The GCA days are mainly dominated by inventory holding period of 108 days in FY2020 as against 91 days in FY2019. The collection period has improved to 26 days in FY2020 as against 58 days in FY2019. However, the company's average bank limit utilisation stood at ~87 percent for the last six months ended as on July 2020. Acuité believes that the 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 and exports of the company constituted around 25.00 – 30.00 percent of the total sales. As a result, the business is exposed to fluctuations in the 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.

Rating Sensitivities

- Elongation in the working capital cycle
- Deterioration in the financial risk profile or liquidity position

Material Covenants

None

Liquidity Position: Strong

LSML maintains strong liquidity position marked by net cash accruals of Rs. 50.27 crore for FY2020 against debt repayment of ~Rs. 14.60 crore over the same period. The current ratio of the company stood at 1.32 times as on March 31, 2020. NCA/TD stood at 0.25 times as on 31st March, 2020 and 0.24 times in the previous year. However, the company reliance is higher on bank limit utilisation which stood at ~ 87.12 percent for the last six months ended as on July 2020. Acuité believes company is likely to maintain its liquidity profile on the back of healthy order book position and higher profitability margins.

Outlook: Stable

Acuité believes that the outlook of LSML will remain 'Stable' over the medium term on account of the promoter's 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 company.

About the Rated Entity - Key Financials

| | Unit | FY20 (Actual) | FY19 (Actual) |
|-------------------------------|---------|---------------|---------------|
| Operating Income | Rs. Cr. | 725.27 | 774.60 |
| PAT | Rs. Cr. | 29.86 | 28.70 |
| PAT Margin | (%) | 4.12 | 3.70 |
| Total Debt/Tangible Net Worth | Times | 0.77 | 0.89 |
| PBDIT/Interest | Times | 3.76 | 4.90 |

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-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Financial Ratios And Adjustments <https://www.acuite.in/view-rating-criteria-53.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 |
|-------------|---------------------------------|------------|---------------------------------|---|
| 01-Aug-2019 | Cash Credit -I | Long Term | 85.00* | ACUITE A/ Stable (Upgraded from A-/Stable) |
| | Term loans | Long Term | 20.71 (enhanced from 5.79) | ACUITE A/Stable (Upgraded from A-/Stable) |
| | Bills Discounting | Short Term | 52.00 | ACUITE A1 (Upgraded from A2+) |
| | Letter of credit | Short Term | 70.00 | ACUITE A1 (Upgraded from A2+) |
| | EPC | Long Term | 20.00 | ACUITE A/ Stable (Assigned) |
| | Bank guarantee | Short Term | 2.00 | ACUITE A1 (Upgraded from A2+) |
| | Cash Credit -II | Long Term | 38.00# | ACUITE A/Stable (Upgraded from A-/ Stable) |
| | Bills Discounting | Short Term | 10.00 | ACUITE A1 (Upgraded from A2+) |
| | Term loans | Long Term | 6.48 | ACUITE A/Stable (Upgraded from A-/Stable) |
| | Cash Credit -III | Long Term | 35.00@ (Enhanced from 10.00) | ACUITE A/ Stable (Upgraded from A-/ Stable) |
| | Term loans | Long Term | 23.19 | ACUITE A/ Stable (Upgraded from A-/ Stable) |
| | Proposed Bank Facility | Long Term | 17.62 | ACUITE A/ Stable (Upgraded from A-/ Stable) |
| | Fixed Deposit | Long Term | 10.00 | ACUITE FA (Withdrawn) |
| 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 (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 (Reaffirmed) |
| Term loans | Nov-2018 | Not Applicable | Mar-2026 | 39.86 | ACUITE A/ Stable (Reaffirmed) |
| Bills Discounting | Not Applicable | Not Applicable | Not Applicable | 52.00 | ACUITE A1 (Reaffirmed) |
| Letter of credit | Not Applicable | Not Applicable | Not Applicable | 70.00 | ACUITE A1 (Reaffirmed) |
| EPC | Not Applicable | Not Applicable | Not Applicable | 20.00 | ACUITE A/ Stable (Reaffirmed) |
| Bank guarantee | Not Applicable | Not Applicable | Not Applicable | 2.00 | ACUITE A1 (Reaffirmed) |
| Cash Credit -II | Not Applicable | Not Applicable | Not Applicable | 38.00# | ACUITE A/ Stable (Reaffirmed) |
| Bills Discounting | Not Applicable | Not Applicable | Not Applicable | 10.00 | ACUITE A1 (Reaffirmed) |
| Term loans | Nov-2017 | Not Applicable | Mar-2024 | 5.18 | ACUITE A/ Stable (Reaffirmed) |
| Cash Credit -III | Not Applicable | Not Applicable | Not Applicable | 30.00@ | ACUITE A/ Stable (Reaffirmed) |
| Term loans | Apr-2016 | Not Applicable | Apr-2025 | 17.91 | ACUITE A/ Stable (Reaffirmed) |
| Bills Discounting | Not Applicable | Not Applicable | Not Applicable | 25.00 | ACUITE A1 (Reaffirmed) |
| Proposed Bank Facility | Not Applicable | Not Applicable | Not Applicable | 0.05 | ACUITE A/ Stable (Reaffirmed) |

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

#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.

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

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About Acuité Ratings & Research:

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