

Press Release

L S Mills Limited

March 14, 2023



Rating Downgraded and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	378.00	ACUITE A Stable Downgraded	-
Bank Loan Ratings	77.00	-	ACUITE A1 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	455.00	-	-

Rating Rationale

Acuite has downgraded its long-term rating to '**ACUITE A**' (read as **ACUITE 'A'**) from **ACUITE A+** (read as **ACUITE A plus**) and reaffirmed its short-term rating of '**ACUITE A1**' (read as **ACUITE 'A one'**) on the Rs.455.00 Cr bank facilities of L S Mills Limited (LSML). The outlook is '**Stable**'.

Rationale for rating downgrade:

The rating downgrade reflects the decline in the business and financial risk profile of LSML. The performance of the company was primarily impacted due to demerger of its spinning capacity to another entity.

In April, 2022 NCLT allowed demerger of LS Mills Limited (LSML) and LS Spinning Mills Limited (LSSML) w.e.f. from April 01, 2020. LSML as a part of the compensation hived off one of its Theni factories constituting 80480 spindles and 6.05 MW Windmill Capacity to LSSML. The demerger was on account of family partition between the promoter - brothers Mr. S. Manivannan and Mr. L.S. Prabhaakaran and for efficient management of the business.

Prior to demerger, LSML's installed Spinning capacity was of 1,63,032 spindles, 108 In-house looms in its weaving division, 13 MW windmill capacity, 6.05 MW solar capacity and 10,000 pieces per day of Made-Ups (Bed-linen). As a result of the demerger, the company on a constant capacity basis has reported a reduction of ~Rs.230.00 crore in its scale of operations and a reduction of ~82 bps in its operating margins.

LSML in FY2023 to compensate for the lost capacity, incurred additional capex to install 25000 spindles. This was in addition to its ongoing capex to enhance its solar power generation capacity. The company during the last review, planned to increase its solar power capacity by an additional 12 MW in FY22, it was later increased to 26 MW. All the planned capex stands completed as on date, however, due to the above capex and subsequent increase in short term debt, the financial risk profile of LSML has moderated beyond Acuite's expectations. The Debt to EBITDA ratio of the company stood at 2.85 times as on March 31, 2022 as against 1.81 times as on March 31, 2021. It is expected remain in the range of 2.70 - 3.70 over the medium term. The interest coverage ratio stood at 5.67 times for FY2022 as against 6.33 times in FY2021. It is expected to be in the range of 2.5-4 times over the medium term. The net cash accruals to total debt stood at 0.18 times for FY22 as against 0.34 times for FY21. Going forward, LSML's ability to improve its scale of operations and profitability margins while maintaining its capital structure will remain a key rating monitorable.

About the Company

Incorporated in 1983, LSML is a family-owned integrated business engaged in manufacturing of cotton yarn, fabrics and home-furnishing products (Made-Ups). The LSML's manufacturing facility is located at Theni, Tamil Nadu. Its products include fine-count yarn of 60s-120s, fine thread count grey fabric and bed linen. As on date, LSML has an installed Spinning capacity of 124232 spindles, 124 in-house looms in its weaving division, 17.2 MW windmill capacity, 36.78 MW solar capacity and 10,000 pieces per day of Made-Ups (Bed-linen). Bed Linen is sold internationally under the brand name 'Airfeel' and in the domestic segment under the brand name 'Sleep Desire'. The company is an authorized license holder for procuring SUPIMA cotton and Egyptian (Giza) cotton. LSML is promoted by Mr. S. Manivannan and his family members.

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). The LSML has an operational track record of more than 3 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 My pillow among others. Acuité believes that the LSML will benefit from establishing presence in textile industry and extensive experience of promoters.

Moderate financial risk profile

The financial risk profile of LSML is moderate marked by moderate net-worth, average overall gearing and comfortable debt protection metrics. The tangible net worth stood at Rs.263.55 Cr as on 31 March, 2022 as against Rs.212.02 Cr as on 31 March, 2021 and Rs.257.91 Cr as on 31 March, 2020. The demerger came into effect from 01 April, 2020. On the account of demerger, LSML's net-worth reduced by Rs.90.81 Cr in FY21, however, due to accretion of profits to reserves the net impact reduced. The total debt of LSML is Rs.404.43 which mainly consists of long-term debt of Rs.179.58 crore, short-term debt of Rs.197.82 crore and maturing portion of long term borrowings of Rs.27.03 Cr. The company's debt has significantly increased from Rs. 199.24 Cr as on March 31, 2020 (prior to demerger) and Rs.186.05 Cr as on March 31, 2021. The increase is primarily on account of additional debt availed to fund the capex incurred towards increasing LSML's spinning capacity post demerger, solar power capacity and increase in working capital limits.

The gearing (debt equity) stood at 1.53 times as on 31 March, 2022 as against 0.88 times as on 31 March, 2021 and 0.77 times as on March 31, 2020 and expected remain in the range of 1.22 - 0.93 times over the medium term. The Debt to EBITDA ratio of the company stood at 2.85 times as on March 31, 2022 as against 1.81 times as on March 31, 2021 and 2.46 times as on March 31, 2020. It is expected remain in the range of 2.70 - 3.70 over the medium term. The coverage indicators stood moderate, marked by interest coverage ratio (ICR) stood at 5.67 times in FY2022 as against 6.33 times in FY2021 and 3.76 times in FY2020. The DSCR stood at 2.55 times in FY2022 against 2.58 times in FY2021 and 2.05 times in FY2020. The total outside liabilities to tangible net worth (TOL/TNW) stood at 2.21 times as on 31 March 2022 as against 1.40 times as on 31 March, 2021 and 1.20 times as on March 31, 2020.

Acuite believes the financial risk profile of the LSML will continue to remain moderate over the medium term in view of the completion of capex in FY23 and no further debt funded capex plan over the medium term.

Weaknesses

Moderately intensive working capital cycle

LSML's working capital cycle is marked by moderate Gross Current Assets (GCA) days in the range of 130-160 days over the last two years ending March 31, 2022. The GCA days are majorly driven by inventory days which stood at 146 days as on March 31, 2022 as against 91 days as on March 31, 2021. The debtor days ranged between 13-40 days for the two years ended March 31, 2022. These are partially offset by creditor days of 50-70 days for the same period. The moderate GCA cycle has led to moderate utilization of its bank limits which averaged around 80 percent for the past 12 months ending December 2022.

Acuite believes that the efficient management of its working capital cycle will remain crucial to the company.

Decline in operating performance

The demerger of LS Mills (LSM) and LS Spinning Mills (LSSM) has impacted the business risk profile, particularly the profitability of the company. LS Mills as a part of the compensation hived off one of its then factories constituting 80480 spindles. The spinning segment across the industry saw significant improvement in its top lines and profitability margins during the period FY22 and recorded slow down FY23 onwards. The LSML was expected to earn operating margins in the range of 21-23 percent in the year FY22, however, due to reduction in its spinning capacity, the margins moderated. The margins moderation was also on account of fluctuations in cotton prices, which recorded steep variations during the period Q4FY22 to Q1FY23 period.

The LSML over the medium term is expected to generate operating margins in the range 14-16 percent while the revenues are expected to range between Rs. 650-750 Cr for the same period. The LSML's operating income stood at Rs.813.49 Cr in FY22 as against Rs.698.51 Cr in FY21 (Restated). The LSML has generated an operating income of Rs. 479.54 Cr in 9MFY23.

Susceptibility to volatility in raw material prices and foreign exchange fluctuation risk

LSML's profitable margins are susceptible to fluctuations in the prices of major raw materials such as domestic cotton (DCH 32, MCU 5) and Import cotton (Giza, Pima and Supima). 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. Further, demand supply scenarios and government regulations of changes in Minimum Support Prices (MSP) leads to distortion of prices and affect the profitability of players across the cotton value chain. Further, 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.

Rating Sensitivities

- Significant and sustainable improvement in the scale of operations while maintaining the profitability margins and capital structure
- Any deterioration in working capital cycle and liquidity profile of the company.

Material covenants

None

Liquidity Position: Adequate

LSML's liquidity is adequate marked by healthy generation of net cash accruals to its maturing debt obligations, albeit low level of unencumbered cash and bank balance and moderate bank limit utilisation. LSML has generated cash accruals in the range of 73 - 50.27 Cr during last 3 years ending FY2022 as against its long term debt obligations of Rs.14-27 Cr for the same period. LSML is expected to generate NCA in range of Rs.55-81 Cr against maturing

debt obligations in range of Rs.28-35 Cr over the medium term.

The LSML's working capital is moderate as evident from Gross Current Asset (GCA) of 156 days as on 31 March, 2022 as compared to 130 days as on 31 March, 2021. The current ratio stood at 1.11 times as on 31 March 2021 against 1.33 in previous year and the fund based limit remains utilized at ~80 percent over the 12 months ended December, 2022. Acuité believes that the liquidity of the LSML is likely to remain adequate in view of the moderate net cash accruals against repayment obligations.

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 further deterioration in the financial risk profile of LSML.

Other Factors affecting Rating

None

About the Rated Entity - Key Financials

FY21 figures are restated considering the effect of demerger.

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	813.49	698.51
PAT	Rs. Cr.	52.56	47.74
PAT Margin	(%)	6.46	6.84
Total Debt/Tangible Net Worth	Times	1.53	0.88
PBDIT/Interest	Times	5.67	6.33

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

None

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
14 Dec 2021	Term Loan	Long Term	102.99	ACUITE A+ Stable (Upgraded from ACUITE A Stable)
	Term Loan	Long Term	0.31	ACUITE A+ Stable (Assigned)
	Bills Discounting	Short Term	10.00	ACUITE A1 (Reaffirmed)
	Bills Discounting	Short Term	25.00	ACUITE A1 (Reaffirmed)
	Bills Discounting	Short Term	20.00	ACUITE A1 (Assigned)
	Bank Guarantee	Short Term	2.00	ACUITE A1 (Reaffirmed)
	Proposed Bank Facility	Long Term	7.17	ACUITE A+ Stable (Assigned)
	Term Loan	Long Term	20.98	ACUITE A+ Stable (Upgraded from ACUITE A Stable)
	Term Loan	Long Term	7.52	ACUITE A+ Stable (Assigned)
	Cash Credit	Long Term	38.00	ACUITE A+ Stable (Upgraded from ACUITE A Stable)
	Term Loan	Long Term	12.16	ACUITE A+ Stable (Upgraded from ACUITE A Stable)
	Bills Discounting	Short Term	10.00	ACUITE A1 (Assigned)
	Term Loan	Long Term	3.87	ACUITE A+ Stable (Upgraded from ACUITE A Stable)
	Cash Credit	Long Term	30.00	ACUITE A+ Stable (Upgraded from ACUITE A Stable)
	Bills Discounting	Short Term	10.00	ACUITE A1 (Reaffirmed)
	Letter of Credit	Short Term	55.00	ACUITE A1 (Reaffirmed)
	Cash Credit	Long Term	85.00	ACUITE A+ Stable (Upgraded from ACUITE A Stable)
	Cash Credit	Long Term	15.00	ACUITE A+ Stable (Assigned)
08 Oct 2020	Cash Credit	Long Term	85.00	ACUITE A Stable (Reaffirmed)
	Bills Discounting	Short Term	10.00	ACUITE A1 (Reaffirmed)
	Packing Credit	Long Term	20.00	ACUITE A Stable (Reaffirmed)
	Bills Discounting	Short Term	52.00	ACUITE A1 (Reaffirmed)
	Proposed Bank Facility	Long Term	0.05	ACUITE A Stable (Reaffirmed)
	Bank Guarantee	Short Term	2.00	ACUITE A1 (Reaffirmed)
	Term Loan	Long Term	5.18	ACUITE A Stable (Reaffirmed)
	Cash Credit	Long Term	38.00	ACUITE A Stable (Reaffirmed)
		Long		

	Term Loan	Term	39.86	ACUITE A Stable (Reaffirmed)
	Term Loan	Long Term	17.91	ACUITE A Stable (Reaffirmed)
	Letter of Credit	Short Term	70.00	ACUITE A1 (Reaffirmed)
	Bills Discounting	Short Term	25.00	ACUITE A1 (Reaffirmed)
	Cash Credit	Long Term	30.00	ACUITE A Stable (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	2.00	ACUITE A1 Reaffirmed
IDBI Bank Ltd.	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A1 Reaffirmed
HDFC Bank Ltd.	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	Simple	40.15	ACUITE A Stable Downgraded
IDBI Bank Ltd.	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A1 Reaffirmed
IDBI Bank Ltd.	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	38.00	ACUITE A Stable Downgraded
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	128.00	ACUITE A Stable Downgraded
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	ACUITE A Stable Downgraded
HDFC Bank Ltd.	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	24.00	ACUITE A Stable Downgraded
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	55.00	ACUITE A1 Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	112.21	ACUITE A Stable Downgraded
IDBI Bank Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	5.64	ACUITE A Stable Downgraded

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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