

Press Release

Lucky Weavess India Private Limited

January 09, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs. 30.00 Cr.
Long Term Rating	ACUITE BBB-(CE**)/Outlook: Stable (Assigned)
Short Term Rating	ACUITE A3 (CE**) (Assigned)

* Refer Annexure for details

**Credit Enhancement in the form of Letter of Comfort from group company Lucky Yarn Tex India Private Limited.

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BBB-(CE)**' (read as **ACUITE triple B minus**) (**Credit Enhancement**) and short term rating of '**ACUITE A3(CE)**' (read as **ACUITE A three**) (**Credit Enhancement**) on the Rs. 30.00 crore bank facilities of LUCKY WEAVERS INDIA PRIVATE LIMITED (LWPL). The outlook is '**Stable**'.

Palipalayam, Tamil Nadu based Lucky Weaves India Private Limited (LWPL) is promoted by Mr. Ganesh Rajamanickam, Mr. P Vishwanathan and Mr. Rajamanickam Saravana Prabhu. The promoters Mr. Ganesh Rajamanickam and Mr. P Vishwanathan, are also the promoters of Lucky Yarn Tex India Private Limited (LYTI) (ACUITE BBB/Stable/A3+) and co-promoters of Mothi Spinners Private Limited (MSPL) (ACUITE A-/Stable/A2+). LWPL commenced its operations in FY2018, with a sizing unit, and is in the process of expanding its operations to include a weaving unit. Currently apart from sizing the company also sells yarn, fabric and garments, the processing for these segments is done through job work.

About the Group Company:

Lucky Yarn Tex India Private Limited (LYTI), incorporated in 2006, is primarily engaged in manufacturing of viscose, blended yarns and fabrics. Lucky yarn's manufacturing facility is located at Pallipalayam (Tamil Nadu). It has spindle capacity of 40896 spindles, 4 vortex, and 150 Air jet looms. Lucky Yarn has wind turbine generators with installed capacity of 8.25 mega-watts (MW) in Tamil Nadu which supports about 30 to 35 percent of its power requirement.

Standalone (Unsupported) Rating

ACUITE BB/Stable/A4+

Analytical Approach

For arriving at the rating, Acuite has considered the standalone credit profile of LWPL which is strengthened by the support from the group company Lucky Yarn Tex India Private Limited (LYTI). Further, Acuite has considered credit enhancement in the form of Letter of Comfort provided by Lucky Yarn Tex India Private Limited (LYTI).

Key Rating Drivers

Strengths

• Experience of promoters and established presence of the group company in textile industry:

LWPL is operating in the textile industry and operates a sizing unit, apart from sizing the company also sells fabric and yarn through job work. LWPL is part of LYTI which has been in operations since 2006 as a manufacturer of viscose and cotton yarn and blended fabrics. LWPL is promoted by Mr. P. Viswanathan, Mr. G. Rajamanickam and Mr. Prabhu R, Mr. Vishwanathan and Mr. Rajamanickam have over three decades experience in the textile industry. LYTI 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.

Acuite believes that the industry experience and domain knowledge of the promoters and group is expected to support the business risk profile of LWPL over the near to medium term.

Weaknesses

• **Limited track record of operations:**

LWPL commenced operations in FY2018 thereby is in its initial stage of operations. The company operates a sizing unit and is currently in the process of implementing a weaving unit, and is expected to commence production by March 2020. Currently apart from sizing the company sells fabric and yarn which is processed through job work. Through this the company has already built a customer base which will aid the revenues once the weaving unit is in production. Though the company is in its initial stage of operations it benefits from the established track record of the promoters and the group.

Acuite believes, that the ability of LWPL to scale up its operations will remain critical to maintain a stable credit profile.

• **Intense competition in textile industry**

The textile industry in India is highly fragmented and competitive marked by presence of large number of organised and unorganised players. LWPL is exposed to intense competition from both domestic players as well as the established players in overseas market. The shifts in consumption patterns can also have an adverse impact on the operations of the company. The Indian textile industry has also seen a muted growth in past few years and may have impact on the growth of LWPL. Further, margins are highly susceptible to changes in raw material prices, which restricts bargaining power with the suppliers as well.

Liquidity Position: Adequate

LWPL's liquidity position is adequate. LWPL is in its initial stage of operations, being predominantly a sizing unit, it has low inventory requirement and consequently low working capital requirements. Acuite expects an increase in working capital requirements over the near term, once the company commences operations in its weaving unit. Currently LWPL avails short term working capital facility from banks, which was ~19 percent utilised over the past six month ending October, 2019. The company has also availed term loan for its expansion project, repayments of these loans are expected to commence in FY2020.

Rating Sensitivities

- Significant scaling up of operations, while improving operating margins,
- Higher than expected debt funded capex.

Outlook: Stable

Acuite believes that LWPL will maintain a 'Stable' business risk profile over the medium term supported by experienced promoters and groups established presence in textile segment. The outlook may be revised to 'Positive' in case the company registers healthy revenues and healthy profitability and capital structure. Conversely, the outlook may be revised to 'Negative' in case of more than expected debt-funded capex, or lower than expected profitability leading to deterioration in the company's financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	66.61	9.60
PAT	Rs. Cr.	0.84	0.23
PAT Margin	(%)	1.26	2.42
Total Debt/Tangible Net Worth	Times	0.74	0.83
PBDIT/Interest	Times	4.77	6.89

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

Not Applicable

Any other information

Not Applicable

Any Material Covenants

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>
- Explicit Credit Enhancements - <https://www.acuite.in/view-rating-criteria-49.htm>
- Complexity Level Of Financial Instruments - <https://www.acuite.in/view-rating-criteria-33.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	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB-(CE) / Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BBB-(CE) / Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	16.50*	ACUITE BBB-(CE) / Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BBB-(CE) / Stable (Assigned)
Bank guarantee/ Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A3(CE) (Assigned)

*sub limit Letter of credit Rs. 14.16 Crore

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About Acuité Ratings & Research:

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