January 31, 2022

Lahoti Overseas Ltd. : Ratings reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short term – Fund based Limits	66.44	106.60	[ICRA]A3+ reaffirmed
Short term – Non fund based	(3.00)	(3.00)	[ICRA]A3+ reaffirmed
Long term/Short term – Unallocated	41.01	0.85	[ICRA]BBB (Stable)/[ICRA]A3+ Reaffirmed; outlook revised to Stable from Negative
Total	**107.45**	**107.45**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in outlook reflect the significant improvement in operational and financial performances of Lahoti Overseas Ltd(Lahoti) in H1FY2022 which is expected to continue in full year FY2022 . Lahoti witnessed a strong growth in revenues and earnings and a consequent improvement in debt protection metrics on the back of favourable demand scenario and recent announcement of enhanced export incentives for yarn exports. Revenues in the current fiscal are likely to increase by more than 60% owing to healthy volumes and yarn prices across both the yarn manufacturing and trading segments.

KEPL's coverage metrics including interest coverage and debt service coverage ratio are also expected to improve to comfortable levels of 5.0 times and 4.0 times, respectively in the current fiscal, driven by a healthy growth in earnings from operations, as seen in H1 FY2022. While its leverage indicators remain moderately high primarily because of the high working capital requirements in the business, key ratios including total debt to operating profits (TD/OPBDITA) and total outside liabilities to tangible net worth (TOL/TNW) are expected to improve. The ratings also consider the established presence of Lahoti in the yarn exports segment. However, the ratings remain constrained from the susceptibility of the margins to the foreign exchange rate fluctuations as well as to the volatility in the prices of cotton and cotton yarn. However, with ~90% of the procurement being order-backed, it mitigates the price risks to an extent

Key rating drivers and their description

Credit strengths

Established presence in the yarn and fabric export segment – Lahoti Overseas Ltd. was incorporated in 1990 by the Lahoti family. The company trades in cotton yarn and fabrics. The promoters have an extensive experience of more than three decades in the business of exporting yarn, which has enabled the company to establish its position in the exports market.

Comfortable capital structure backed by lower debt – The capital structure of the company has remained comfortable in the past years, supported by its strong net worth. Backed by low debt levels, the gearing stood comfortable at 0.4 time as on March 31, 2021 (0.4 time as on March 31, 2020). The liquidity position has remained adequate with liquid investments of Rs. 11.7 crore, and free cash balance of Rs. 4.3 crore on the company's books as on March 31, 2021.

Credit challenges

Profitability remains exposed to highly volatile cotton yarn prices; however, with most procurement being backed by confirmed orders, the risk is mitigated to some extent - The company procures yarn and fabric for trading entirely from the domestic market. Its major markets include Tamil Nadu, Andhra Pradesh, Madhya Pradesh, Gujarat, Rajasthan and Haryana. The profitability remains susceptible to volatility in domestic cotton yarn prices compared to international prices. However, almost 90% of the procurement is order-backed, mitigating price fluctuation risks to an extent. Furthermore, high cotton yarn prices in the domestic market vis-à-vis the international prices has dented the operating profitability of the company and, thus, the coverage indicators.

Profitability also susceptible to foreign exchange rate fluctuations - With the company's sales being export-oriented, the profit margins remain exposed to foreign exchange rate fluctuations. However, Lahoti has a policy of hedging around 70–80% of its contracts through forward contracts.

Liquidity position: Adequate

The liquidity position of Lahoti is adequate given the moderate utilisation of the working capital limits with the average utilisation of the fund-based sanctioned limit at 61% during September 2020 to December 2021. Further, comfort can also be drawn from the fact that the company had liquid investments of Rs. 11.7 crore, and free cash balance of Rs. 4.3 crore as on March 31, 2021. Also, there is no long-term debt repayment for the entity.

Rating sensitivities

Positive factors – ICRA could upgrade Lahoti's ratings if there is a sustained growth in its scale of operations coupled with an improvement in profitability and liquidity position of the company.

Negative factors – Pressure on Lahoti's rating could arise if there is any sustained pressure on the earning or a deterioration in the working capital cycle, which would adversely impact its coverage metrics and liquidity position. Specific credit metrics that could lead to a downgrade of Lahoti's rating include interest cover remaining below 3.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of Lahoti.

About the company

Incorporated in 1990, Lahoti has been trading in greige fabric and textured yarn since its inception. Cotton yarn accounted for most of its sales in the last three years. The company is currently managed by Mr. Ujwal R. Lahoti, Mr. Umesh R. Lahoti and Mr. Aadhitiya U. Lahoti. Lahoti is an ISO 9001:2008 certified company with its registered office in Mumbai. The company has also been certified by the Global Organic Textile Standard (GOTS), Netherlands, for dealing in 100% organic cotton products, and has also received an Oeko-Tex Standard certification. The Lahoti Group consists of two other entities—G. Varadan Ltd. and Lahoti Spintex Ltd. Both are non-functional, and only generate rental income. Lahoti has further ventured into power generation with four wind mills, one each at Rajasthan and Madhya Pradesh and two in Maharashtra. It also has a 2.5MW solar power generation unit in Rajasthan.

Key financial indicators (audited)

Lahoti Standalone	FY2020	FY2021	H1 FY2022
Operating Income (Rs. crore)	396.4	470.1	409.8
PAT (Rs. crore)	5.4	8.0	1.1
OPBDIT/OI (%)	2.7%	2.0%	3.2%
PAT/OI (%)	1.4%	1.7%	0.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.5	0.7
Total Debt/OPBDIT (times)	5.1	5.7	6.4
Interest Coverage (times)	3.4	3.7	5.6

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					Jan 31, 2022	Oct 8, 2020	Feb 27, 2020	Mar 08, 2019	Jun 08, 2018
1	Export Bill Discounting/ Packing Credit in Foreign Currency	Short – term	106.60	-	**[ICRA]A3+**	**[ICRA]A3+**	**[ICRA]A3+**	**[ICRA]A3+**	**[ICRA]A3+**
2	Letter of Credit	Short – term	(3.00)	-	**[ICRA]A3+**	**[ICRA]A3+**	**[ICRA]A3+**	**[ICRA]A3+**	**[ICRA]A3+**
3	Unallocated amount	Long term/Short term	0.85	-	**[ICRA]BBB (Stable)/[ICRA]A3+**	**[ICRA]BBB (Negative)/[ICRA]A3+**	**[ICRA]BBB (Negative)/[ICRA]A3+**	**[ICRA]BBB (Stable)/[ICRA]A3+**	**[ICRA]BBB (Negative)/[ICRA]A3+**

&= Under watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Export Bill Discounting/ Packing Credit in Foreign Currency	Simple
Letter of Credit	Simple
Unallocated amount	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
-	Export Bill Discounting/ Packing Credit in Foreign Currency	NA	NA	NA	106.60	[ICRA]A3+
-	Letter of Credit	NA	NA	NA	(3.00)	[ICRA]A3+
-	Unallocated	NA	NA	NA	0.85	[ICRA]BBB (Stable)/[ICRA]A3+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

NA

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About ICRA Limited:

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