

February 27, 2020

Lahoti Overseas Ltd.- Update on Material Event; ratings reaffirmed, outlook revised to Negative

Summary of rating action

Instrument	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term, Fund-based Limit	71.44	71.44	[ICRA]A3+; re-affirmed
Short-term, Non-Fund based Limit	(3.00) #	(3.00) #	[ICRA]A3+; re-affirmed
Long-term & Short-term Unallocated Limits	36.01	36.01	[ICRA]BBB/[ICRA]A3+ re-affirmed; Outlook revised to Negative from Stable
Total	107.45	107.45	

*Instrument details are provided in Annexure-1

Interchangeable sub limit within short-term fund-based limit of Rs. 15.00 crore.

Material Event

Lahoti Overseas Ltd. ('Lahoti' or 'the company') has announced its quarterly results on February 14, 2020. The company reported a net profit of of Rs. 1.24 crore on an operating income (OI) of Rs. 117.18 crore in Q3 FY2020 against a net profit of Rs. 1.94 crore on an OI of Rs. 77.03 crore in Q2 FY2020. For the 9M FY2020, Lahoti has reported a net profit of Rs. 5.66 crore on (net profit of Rs. 15.31 crore in 9M FY2019) an OI of Rs 298.56 crore (against Rs. 512.69 crore in 9M FY2019).

Impact of the Material Event

ICRA has reaffirmed the long-term rating at [ICRA]BBB (pronounced ICRA triple B) and the short-term rating at [ICRA]A3+ (pronounced ICRA A three plus) for the Rs. 107.45 crore bank lines of the company. The outlook on the long-term rating has been revised to Negative from Stable.

Rationale

The revision in the outlook factors in the weakness in the company's operating performance in 9M FY2020 on account of continued weakness in export demand owing to China's subdued yarn imports as well as fall in demand from other export markets. Additionally, steep increase in domestic cotton yarn prices to a level higher than the international prices have also contributed to the decline in exports as well as sales realisations. Consequently, the company reported a net profit of Rs. 5.66 crore on an operating income of Rs. 298.56 crore in 9M FY2020 over a net profit of Rs. 15.31 crore with an operating income of Rs. 512.69 crore. OPM in 9M FY2020 declined to 3.02% as against 4.82% in 9M FY2019. Decline in operating profit levels has also led to weaker interest coverage ratio as indicated by OPBDITA/interest and Finance Charges of 3.53 times (5.16 times as on December 31, 2018) as on December 31, 2019.

ICRA also notes the susceptibility of the margins to the foreign exchange rate fluctuations and also 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.

The ratings, however, continue to factor in the significant experience of the promoters of Lahoti in the textile business, and a satisfactory capital structure as reflected by the healthy net-worth and comfortable gearing levels of 0.30 time as on September 30, 2019. The liquidity position of the company has also remained adequate supported by healthy liquid investments.

The Negative outlook on the [ICRA]BBB rating reflects that Lahoti's operating performance is likely to remain subdued over the near to medium term due to weak yarn demand outlook and falling yarn realisations. Persistent weakness in demand may further exert pressure on Lahoti's performance leading to sustained de-growth in its turnover as well as profitability.

Key rating drivers

Credit strengths

Extensive experience of promoters in the trading of cotton yarn - The company was set up in 1990 by the Lahoti family; and since its inception, it has been involved in trading of cotton yarn. 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.

Financial profile characterised by strong net-worth leading to comfortable capital structure at present - The capital structure of the company has remained comfortable in the past three years, supported by its strong net-worth. Backed by the strong net worth position and low debt levels, gearing stood comfortable at 0.30 time as on September 30, 2019 over a gearing of 0.57 time as on March 31, 2019. The liquidity position has also remained adequate and as on September 30, 2019 the company had liquid investments of Rs. 10.12 crore.

Credit challenges

Weak export market conditions have exerted pressure on revenues and profitability in 9M FY2020 – Lahoti's operating income as well as profitability has been impacted in 9M FY2020 by the continued sluggish demand from China, competitive pressure from Pakistan and Vietnam, who have duty free access for exporting yarn to China. China continues to be one of the top most export destination and given the current economic situation in China the realization of bills outstanding will remain a key monitorable. Further, 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. OPM in 9M FY2020 declined to 3.02% as against 4.82% in 9M FY2019. With the decline in operating profit levels, interest coverage ratio has also weakened as indicated by OPBDITA/interest and Finance Charges of 3.53 times (5.16 times as on December 31, 2018) as on December 31, 2019.

Profitability remains exposed to the highly volatile cotton yarn prices; however, majority of the procurement being backed by confirmed order mitigates the risk to a certain extent - Yarn and fabric for trading is procured from the domestic market from the spinners of Tamil Nadu, Andhra Pradesh, Madhya Pradesh, Gujarat, Rajasthan and Haryana. The margins remain susceptible to volatility in domestic cotton yarn prices compared to international prices. Nonetheless, almost 90% of the procurement is order-backed, mitigating price fluctuation risks to an extent.

Margins also remain susceptible to the foreign exchange rate fluctuations; however, majority of the contracts being hedged mitigates the risk to an extent - With the company's sales being export-oriented, the margins of the company also remain exposed to foreign exchange rate fluctuations. However, Lahoti has a policy of hedging its contracts, and at present, around 70–80% of its contracts are hedged through forward contracts.

Liquidity position: Adequate

The liquidity position of Lahoti is adequate given the moderate utilisation of the working capital limits (average utilisation of 21% of the fund-based sanctioned limit during the past 13 months period ended January 2020). Further, absence of any long-term debt repayments provides comfort. The company also had liquid balances of Rs. 10.12 crore as of H1FY2020.

Rating sensitivities

Positive triggers – The outlook may be revised to Stable if there is recovery in the financial performance driven primarily by improvement in sales and profitability.

Negative triggers – The ratings may be downgraded if there is further decline in sales and margins leading to deterioration of the coverage indicators.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Trading Companies
Parent/Group Support	N.A.
Consolidation / Standalone	Standalone - The ratings are based on the standalone financial profile of the company

About the company

Lahoti was incorporated in 1990 and since its inception, has been trading in yarns, greige fabric and textured yarn. Cotton yarn accounts for ~95% of its total trading sales. 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 and it has also been certified by the Global Organic Textile Standard (GOTS), Netherlands, for dealing in 100% organic cotton products and has also received 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 also ventured into the business of power generation and at present has 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. Income from power generation stood at Rs. 5.65 crore in FY2018.

In FY2019, the company reported a net profit of Rs. 16.16 crore on an operating income (OI) of Rs. 641.76 crore, as compared to a net profit of Rs. 3.69 crore on an OI of Rs. 459.39 crore in the previous year. For the 9M FY2020, on a provisional basis it reported a net profit of Rs. 5.66 crore on an operating income (OI) of Rs. 298.56 crore.

Key financial indicators

	FY2018	FY2019 (Audited)	9M FY2020
	(Audited)		(Unaudited)
Operating Income (Rs. crore)	459.39	641.76	298.56
PAT (Rs. crore)	3.69	16.16	5.66
OPBDIT/OI (%)	2.32%	4.54%	3.02%
RoCE (%)	5.83%	13.91%	-
Total Debt/TNW (times)	0.73	0.57	-
Total Debt/OPBDIT (times)	7.60	2.49	-
OPBDITA/Interest and Finance charges	2.26	4.91	3.53
DSCR	2.52	4.29	-

Source: Financial statements of Lahoti and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2019		Date & Rating in FY2018	Date & Rating in FY2018	Date & Rating in FY2017
			(Rs. crore)		27-Feb-20	8-Mar-19	8-Jun-18	20-Nov-17	7-Sep-17	9-Aug-16
1	Cash Credit	Long-Term	-	-	-	-	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Export Bill Discounting/ Packing Credit in Foreign	Short-Term	71.44	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+
3	Letter of Credit	Short-Term	(3.00) #	-	[ICRA]A3+	[ICRA]A3+	-	-	-	-
4	Unallocated amount	Long-Term & Short-Term	36.01	-	[ICRA]BBB (Negative)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Negative)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+

Interchangeable sub limit within short-term fund-based limit of Rs. 15.00 crore.

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Export Bill Discounting/ Packing Credit in Foreign	NA	NA	NA	71.44	[ICRA]A3+
NA	Letter of Credit	NA	NA	NA	(3.00) #	[ICRA]A3+
NA	Unallocated limits	NA	NA	NA	36.01	[ICRA]BBB (Negative)/ [ICRA]A3+

Interchangeable sub limit within short-term fund-based limit of Rs. 15.00 crore.
Source: Lahoti Overseas Ltd.

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
N.A.	N.A.	N.A.

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