

December 29, 2022

## Lahoti Overseas Ltd.: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Short term – Fund based limits	106.60	106.60	[ICRA]A3+; Reaffirmed
Short Term – Non Fund based	(3.00)	(3.00)	[ICRA]A3+; Reaffirmed
Long term/Short term – Unallocated	0.85	0.85	[ICRA]BBB(Stable)/[ICRA]A3+; Reaffirmed
<b>Total</b>	<b>107.45</b>	<b>107.45</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The ratings reaffirmation considers the established presence of Lahoti Overseas Ltd. (Lahoti) in the yarn exports segment and its healthy liquidity. Despite a deterioration in operational and financial performances of Lahoti in H1 FY2023, which is expected to continue in FY2023, the company has been able to report strong coverage metrics due to lower interest cost and good liquidity position. Lahoti witnessed a strong growth in revenues and earnings in FY2022. In FY2023 so far, the company has reported a significant drop in revenues on account of muted demand. However, the company's debt protection metrics have remained healthy due to minimal debt in the balance sheet and lower interest expenses. The company's liquidity position remained comfortable owing to the buffer available in the form of unutilised working capital limits and healthy cash and liquid investments. Lahoti's coverage metrics including interest coverage and debt service coverage ratio also remained at comfortable levels of 6.9 times and 3.6 times, respectively in the current fiscal, driven by a healthy growth in earnings from operations in FY2022.

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.

The Stable outlook reflects ICRA's expectation that Lahoti will continue to benefit from its established presence in the market and a strong balance sheet, characterised by low debt and comfortable liquidity position.

### Key rating drivers and their description

#### Credit strengths

**Established presence in the yarn and fabric export segment** – Lahoti 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 position. The gearing stood comfortable at 0.4 times as on March 31, 2022 (0.4 times as on March 31, 2021) backed by low debt levels. The liquidity position has remained adequate with liquid investments of Rs. 19.7 crore, and free cash balance of Rs. 20.8 crore on the company's books as on March 31, 2022.

## Credit challenges

**Profitability remains exposed to highly volatile cotton yarn prices, however, the risk is mitigated to some extent as most procurement is backed by confirmed orders** – 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. Besides, high cotton yarn prices in the domestic market vis-à-vis international prices 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.

## Environment and Social Risks

Being in a labour intensive segment, the entities operating in the textile sector are exposed to the risk of disruptions due to inability to properly manage human capital in terms of their safety and overall well being. Entities also remain exposed to any major shift in consumer preferences or developments affecting discretionary consumer spending in key markets.

The industry is exposed to environmental risks, primarily through water, land use, and the impact of the climate on production as well as post-consumer waste. While these risks have not resulted in material implication so far, policy actions towards waste management and the environmental impact such as to recycle the textile as well as packaging waste being generated, could have cost implications for the companies.

## 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 standing at 19% in H1 FY2023. Further, comfort can also be drawn from the fact that the company had liquid investments of Rs. 56.7 crore and free cash balance of Rs. 42.1 crore as on September 30, 2022. Also, there is no long-term debt repayment obligation 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 its profitability.

**Negative factors** – Pressure on Lahoti's ratings could arise if there is any sustained pressure on the earnings 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 ratings include interest cover remaining below 3.0 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
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 managed by Mr. Ujwal R. Lahoti, Mr. Umesh R. Lahoti and Mr. Aadhiya 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), The 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 in Rajasthan and Madhya Pradesh and two in Maharashtra. It also has a 2.5-MW solar power generation unit in Rajasthan.

## Key financial indicators (audited)

Lahoti	FY2021	FY2022	H1FY2023
Operating income	470.1	892.0	168.2
PAT	8.0	23.6	10.2
OPBDIT/OI	1.95%	4.01%	7.76%
PAT/OI	1.71%	2.64%	6.04%
Total outside liabilities/Tangible net worth (times)	0.5	0.5	0.2
Total debt/OPBDIT (times)	5.5	1.7	0.5
Interest coverage (times)	3.7	6.9	17.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated	Amount outstanding as of Mar 31, 2022	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
		(Rs. crore)	(Rs. crore)	December 29, 2022	January 31, 2022	October 8, 2020	February 27, 2020
1 Export Bill Discounting/PCFC	Short term	106.6	--	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+
2 Letter of Credit	Short term	(3.00)	--	[ICRA]A3+ [ICRA]BBB	[ICRA]A3+ [ICRA]BBB	[ICRA]A3+ [ICRA]BBB	[ICRA]A3+ [ICRA]BBB
3 Unallocated	Long/Short term	0.85	--	(Stable)/ [ICRA]A3+	(Stable)/ [ICRA]A3+	(Negative)/ [ICRA]A3+	(Negative)/ [ICRA]A3+

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Export Bill Discounting/PCFC	Simple
Letter of Credit	Simple
Unallocated	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 analysing 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 are available on ICRA's website: [Click Here](#)

#### Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Export Bill Discounting/PCFC	NA	NA	NA	106.60	[ICRA]A3+
NA	Letter of Credit	NA	NA	NA	(3.00)	[ICRA]A3+
NA	Unallocated	NA	NA	NA	0.85	[ICRA]BBB(Stable)/[ICRA]A3+

Source: Lahoti Overseas Limited

#### Annexure II: List of entities considered for consolidated analysis – Not Applicable

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