

L.S. Mills Limited

Instrument	Amount (Rs. crore ¹)	Rating Action (July 2016)
Long-term – Term loan facilities	71.20 (revised from 88.60)	[ICRA]BBB (Stable) / upgraded from [ICRA]BBB- (Stable)
Long-term – Fund based facilities	123.00 (revised from 88.00)	
Long-term – Proposed facilities	Nil (revised from 17.60)	-

ICRA has upgraded the long-term rating outstanding on the Rs. 71.20 crore (revised from Rs. 88.60 crore) term loan facilities and Rs. 123.00 crore (revised from Rs. 88.00 crore) fund based facilities of L.S. Mills Limited (LSML / the company) to [ICRA]BBB (pronounced ICRA triple B) from [ICRA]BBB- (pronounced ICRA triple B minus)². The outlook on the long-term rating is stable.

The rating upgrade takes into account improvement in financial profile of the company during FY2016 characterized by healthy growth in operating margins supported by increase in share of revenues from the high margin home textile segment, and better than anticipated improvement in capital structure (gearing improved to 1.3 times as on March 31, 2016 from 1.7 times as on corresponding previous) aided by Rs. 10.0 crore of equity infused by the promoters in March 2016. While the profitability of the company recorded an all time high (with ROCE levels of 20.0%) supported by healthy accruals, coverage indicators also improved with Interest cover of 3.7 times, TD/OPBDITA of 3.0 times and NCA/Total Debt of 31.1% as on March 31, 2016 (post adjustment for the one-time interest recompense expense of Rs. 21.1 crore incurred towards exit from the CDR scheme). Absence of any debt funded capital expenditure in the near term augurs well for further improvement in capital structure and coverage indicators. The rating also considers the long standing presence of the company and rich experience of the promoters in the textile business of over three decades, established relationship with leading US based retailers resulting in recurring orders / revenues and the moderate scale of operations providing scale economies to an extent.

The company operates in a highly fragmented industry characterized by minimal product differentiation and earnings remain susceptible to volatility in cotton prices and exchange rates (with 41% of revenues from exports in FY2016). However, the integrated nature of operations of the company with presence across the entire value chain, including spinning, weaving and garmenting is expected to lend stability to revenues and earnings. Despite significant repayment obligations slated for the next two fiscals, the liquidity position of the company is expected to be supported by growth in earnings aided by steady increase in share of margin accretive home textile segment. The company has overdue receivable of Rs. 11.5 crore as on March 31, 2016 (down from Rs. 25.8 crore as on corresponding previous) from one of its customer; recoverability of the same is critical. The company received Rs. 2.0 crore of these receivables during the first two months of current fiscal and is taking concrete steps to recover the balance receivables in the near term.

Company Profile

Incorporated in 1983, L.S. Mills Limited is an integrated textile player engaged in manufacture of cotton yarn, fabrics and home furnishing products. LSML has an installed capacity of 1,33,672 spindles, 720 rotors, 84 looms, and 202 sewing machines at its manufacturing facility in Theni (Tamil Nadu). The company also has 6 windmills with combined capacity of 9 MW which helps in savings on power costs to an extent. LSML's product profile is primarily concentrated towards finer count cotton yarn, grey fabric, fine thread count bed linen and other home furnishing products. The company derives majority of export revenues from the home furnishing segment, with high concentration in the US market.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, refer ICRA's website (www.icra.in) or other ICRA rating publications

Recent Results

According to unaudited results, LSML had reported an operating income of Rs.143.7 crore during Q1 FY2017. The company had reported net profit of Rs. 20.7 crore on an operating income of Rs. 622.9 crore during FY2016 as against net profit of Rs. 26.7 crore on an operating income of Rs. 658.4 crore during FY2015.

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