September 07, 2017

Lahoti Overseas Limited Revised

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Long-term, Fund-based Limit	5.00	[ICRA]BBB(Stable); reaffirmed
Short-term, Fund-based Limit	101.00 (earlier 97.00)	[ICRA]A3+; reaffirmed
Long-term & Short-term Unallocated Limits	1.45	[ICRA]BBB(Stable)/[ICRA]A3+; assigned
Total	**107.45**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB (pronounced as ICRA triple B) to the Rs. 5.00 crore[1] fund-based limits of Lahoti Overseas Ltd. (‘Lahoti’ or ‘the company’)[2]. ICRA has also reaffirmed the short-term rating of [ICRA]A3+ (pronounced as ICRA A three plus) to the Rs. 101.00 crore (earlier Rs. 97.00 crore) short-term, fund-based limits. The unallocated limits of Rs. 1.45 crore has been rated on both long-term and short-term scale at [ICRA]BBB and [ICRA]A3+. The outlook on the long-term rating is Stable.

Rationale

The ratings reaffirmation favourably factors in the significant experience of the promoters of Lahoti in the textile business, and a satisfactory financial profile as reflected by the healthy net-worth and moderate gearing levels of 0.55 time as on March 31, 2017. With the diversification of exports to other geographies, the concentration risk has minimised and has supported the growth in revenues in FY2017.
The ratings are, however, constrained by the susceptibility of revenues to fluctuations 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. ICRA also notes the susceptibility of the margins to the foreign exchange rate fluctuations. Nevertheless, ~70–80% of the export contracts are hedged through forward contracts.
Lahoti has reported a sale of Rs. 102.41 crore in Q1 FY2018. ICRA expects the company’s revenues to be in line with that of the previous year, given the current order book. In the absence of any major change in the product profile, profit margins are likely to remain moderate. However, pick up in global demand, fluctuation in domestic cotton yarn prices compared to international prices would continue to influence the exports growth. The company’s capital structure is likely to remain comfortable over the medium term in the absence of any major capex plans. Improvement in accruals is likely to support the debt coverage metrics.

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[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

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 healthy net-worth and 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. As on March 31, 2017 gearing stood at 0.55 time over a gearing of 0.64 time as on March 31, 2016 on account of decline in working capital borrowings.
- **Diversification of exports to non-Chinese markets has minimised the concentration risk and has supported the top-line growth in FY2017** - The company has reported a year-over-year growth in revenue of ~23% in FY2017 supported by diversification of sales to other geographies as well as product diversification. Till FY2016, China was the major export destination accounting for ~21% of the total exports. However, in FY2017, exports to China declined to 16% of total sales over 21% in FY2016, following diversification of sales to other geographies.

Credit weaknesses

- **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 company has strong sourcing arrangements with various spinners, although procurement is largely on cash basis. Almost 90% of the procurement is order-backed, mitigating price fluctuation risks to an extent.
- **Low margin nature of trading business -** The operating profit margins (OPMs) have remained on the lower side, following the trading nature of business. Over the past three years, the OPM stood in the range of 2.80–3.09%. Higher interest and depreciation charges dented the net profit margins (NPMs) and the same stood low in the range of 1–2% in the past three years.
- **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.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:
Corporate Credit Rating – A Note on Methodology
Rating Methodology for Trading Companies

About the company

Lahoti Overseas Ltd. (‘Lahoti’ or ‘the company’) was incorporated in 1990; and since its inception, has been trading in yarns, greige fabric and textured yarn. Cotton yarn accounted for 95% of its total trading sales in FY2017. 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 Oeko-Tex Standard certification. The Lahoti Group consists of two other entities—G. Varadan Ltd. and Lahoti Spintex Ltd. Both are non-functional, however, 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. 6.26 crore in FY2017.

In FY2017, Lahoti reported a net profit of Rs. 10.93 crore on an operating income of Rs. 565.95 crore, as compared to a net profit of Rs. 2.95 crore on an operating income of Rs. 460.57 crore during the previous year.

Key Financial Indicators (Audited)

Particulars	FY2016	FY2017
Operating income (Rs. crore)	460.57	565.95
PAT (Rs. crore)	2.95	10.93
OPBDIT/ OI (%)	3.09%	2.98%
RoCE (%)	6.92%	13.03%
Total Debt/ TNW (times)	0.64	0.55
Total Debt/ OPBDIT (times)	4.28	3.56
Interest coverage (times)	1.76	2.48
NWC/ OI (%)	19%	16%

OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit after Tax;
NWC: Net Working Capital; RoCE: Return on Capital employed; TNW: Tangible Net Worth
Source: Financial statements of Lahoti and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S.No	Name of Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				Sep-17	**Aug-16**	**Sep-15**	**Sep-14**
1	Cash Credit	Long-term Fund based	5.00	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Export Bill Discounting/Packing Credit in Foreign Currency	Short-term Fund based	101.00	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+
5	Unallocated amount	Long-term & Short-term	1.45	[ICRA]BBB (Stable)/ [ICRA]A3+	-	-	-

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

Name of the instrument	Date of issuance	Coupon rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
Cash Credit	-	-	-	5.00	[ICRA]BBB (Stable)
Export Bill Discounting/Packing Credit in Foreign	-	-	-	101.00	[ICRA]A3+
Unallocated amount	-	-	-	1.45	[ICRA]BBB (Stable)/ [ICRA]A3+

Source: Lahoti Overseas Ltd.

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