July 13, 2021

Lagnam Spintex Limited: [ICRA]BB+/[ICRA]A4+ reaffirmed; outlook revised to Stable from Negative; ratings withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Limit	165.60	165.60	[ICRA]BB+ Reaffirmed; Outlook revised to Stable from Negative; Withdrawn
Short-term Fund-based Limit	2.00	2.00	[ICRA]A4+ Reaffirmed and Withdrawn
Short-term Non-fund Based Limit	5.80	5.80	[ICRA]A4+ Reaffirmed and Withdrawn
Total	**173.40**	**173.40**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in outlook factors in the stabilisation of operations of the new plant and the subsequent healthy off-take, which led to 16% top-line growth in FY2021 and higher margins with improvement in realisation. The rating continues to derive comfort from the significant experience of the promoters, spanning over 30 years in the spinning industry, and the company's established and reputed customer base, which ensures repeat business.

The rating, however, remains constrained by the company's moderate financial risk profile as evident from the low net margins, the leveraged capital structure and the moderate debt coverage indicators as on FY2021-end. The ratings also remain constrained by the high working capital intensity of the operations because of the seasonal nature of cotton availability, which necessitates stocking up of inventory during the harvesting season and the intense competition in the spinning industry.

The Stable outlook on [ICRA]BB+ rating reflects ICRA's opinion that Lagnam Spintex Limited (LSL) will continue to maintain its business positioning, supported by the extensive experience of promoters in the textile industry and the established relationship with customers.

ICRA has also withdrawn the ratings assigned to the bank facilities of LSL at the request of the company and based on the No Objection Certificate received from the banker, and in accordance with ICRA's policy on withdrawal and suspension.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in textile industry – LSL was promoted by Mr. D. P. Mangal and his son, Mr. Anand Mangal. Mr. D. P. Mangal has vast experience, spanning over 30 years, in the spinning industry, as he was earlier associated with RSWM Ltd. as an Executive Director and with JCT Ltd. as a Chief Executive Director.

Reputed and established customer profile – The company manufactures 100% cotton yarn, which finds application in denim, home textiles and premium shirting. Over the years, LSL has established a strong relationship with its customers, facilitating continuous order flow.

Healthy scale up of operations – With the successful commissioning and stabilisation of its new plant, the company was able to report a healthy revenue growth in the past two years—Rs. 206 crore in FY2021 and Rs. 177 crore in FY2020 compared to

Rs. 80 crore in FY2019. The company's operating margin also improved to ~13% in FY2021 from ~9% in FY2020 with increase in realisations.

Credit challenges

Moderate financial risk profile – The company's financial risk profile remains moderate with low net margins—~2% in FY2021 and ~1% in FY2020—because of high interest and depreciation expenses. The capital structure remained leveraged, with the gearing at ~3 times and TOL/ TNW at ~3 times as on March 31, 2021, compared to ~3 times and ~4 times, respectively, as on March 31, 2020. The coverage indicators remained modest with Total Debt/OPBDITA at ~6 times, DSCR at ~1 times and interest coverage at ~2 times as of FY2021.

High working capital intensity – The company's working capital intensity of operations is high, owing to its elongated receivable cycle and high inventory holdings arising from the seasonal availability of cotton, which necessitates stocking up during the harvesting season. Additionally, the low credit period allowed by its suppliers increases the overall working capital intensity.

Intense industry competition– The Indian spinning industry is highly fragmented, with numerous organised and unorganised players, which restricts LSL's pricing flexibility.

Liquidity position: Stretched

LSL's liquidity is expected to remain stretched as the cash accruals are tightly matched against the scheduled debt repayments. ICRA notes the scaling up of operations, while improving the profitability, and effectively managing the working capital requirements would remain important from a credit perspective.

Rating sensitivities

Positive factors – Significant increase in scale and profitability, which improves debt coverage indicators, along with improvement in working capital cycle/liquidity profile.

Negative factors – Significant decline in sales and/or lower-than-anticipated operating margins and net cash accruals that weakens the liquidity profile will be a negative rating trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology ICRA Policy on Withdrawal and Suspension of Credit Ratings Rating Methodology for Textiles Industry- Spinning
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financials of Lagnam Spintex Limited.

About the company

LSL was incorporated in 2012 as a closely-held private limited company, which was subsequently converted into a public limited company in 2018. It manufactures rotor-spun cotton yarn (open-end yarn) in the count ranges of 7s–20s from its manufacturing facility in Bhilwara (Rajasthan). The company started its operations with 960 rotors in 2012, which was gradually augmented to 1,920 rotors, with a current annual manufacturing capacity of 6,000 metric tonnes (MT). It sells yarn to denim and home textiles manufacturers, with most of the production catering to denim manufacturers. LSL is an ISO 9001:2015 and USTERIZED-certified company.

Key financial indicators (audited)

MMVAPL Standalone	FY2020	FY2021
Operating Income (Rs. crore)	177	206
PAT (Rs. crore)	1	5
OPBDIT/OI (%)	9%	13%
PAT/OI (%)	1%	2%
Total Outside Liabilities/Tangible Net Worth (times)	3	3
Total Debt/OPBDIT (times)	10	6
Interest Coverage (times)	2	2

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation
Source: Company data, ICRA research;

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 (Rs. Crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020			Date & Rating in FY2019		
					July 13, 2021	July 07, 2020	Feb 18, 2020	Dec 26, 2019	Apr 26, 2019	Nov 19, 2018	Oct 24, 2018	Sep 18, 2018
1	Term Loan	Long-Term	115.60	105.47	[ICRA]BB+ (Stable); Withdrawn	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BB B- (Stable)	[ICRA]BB B- (Stable)	[ICRA]BB B- (Stable)
2	Cash Credit	Long-Term	50.00	-	[ICRA]BB+ (Stable); Withdrawn	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BB B- (Stable)	[ICRA]BB B- (Stable)	[ICRA]BB B- (Stable)
3	Bank Guarantee	Short-Term	3.50	-	[ICRA]A4+; Withdrawn	[ICRA]A4+	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3
4	Standby line of credit	Short-Term	2.00	-	[ICRA]A4+; Withdrawn	[ICRA]A4+	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3
5	Forward Cover	Short-Term	2.30	-	[ICRA]A4+; Withdrawn	[ICRA]A4+	[ICRA]A3	-	-	-	-	-

** As on March 31, 2021*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term Fund Based Limit – CC	Simple
Long Term Fund Based Limit – TL	Simple
Short Term – Fund Based	Simple
Short Term – Non-Fund Based	Very Simple

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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan - Old	FY2012	NA	FY2024	21.60	[ICRA]BB+ (Stable); Withdrawn
NA	Term Loan - New	FY2018	NA	FY2028	94.00	[ICRA]BB+ (Stable); Withdrawn
NA	Cash Credit	NA	NA	NA	50.00	[ICRA]BB+ (Stable); Withdrawn
NA	Bank Guarantee	NA	NA	NA	3.50	[ICRA]A4+; Withdrawn
NA	Standby line of Credit	NA	NA	NA	2.00	[ICRA]A4+; Withdrawn
NA	Forward Cover	NA	NA	NA	2.30	[ICRA]A4+; Withdrawn

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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