July 06, 2023

Lahoti Overseas Ltd.: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Short term – Fund Based Limits	106.60	-	-
Long term/Short term – Fund Based Working Capital Facilities	-	113.60	[ICRA]BBB(Stable)/[ICRA]A3+; reaffirmed/assigned
Short Term – Non-Fund Based Interchangeable	(3.00)	(10.00)	[ICRA]A3+; reaffirmed
Long term/Short term – Unallocated	0.85	-	-
Total	**107.45**	**113.60**	

**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. In FY2023, the company reported a significant drop in revenues on account of muted demand. Despite a deterioration in operational and financial performance of Lahoti in FY2023, 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 15.5 times and 3.6 times, respectively in the current fiscal.

The ratings remain constrained because of the susceptibility of margins to foreign exchange rate fluctuations as well as to the volatility in the prices of cotton and cotton yarn. However, ~90% order-backed procurement 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 remained comfortable in the past years, supported by its strong net worth position. The liquidity position remained adequate with liquid investments of Rs. 58.4 crore, and cash and bank balances of Rs. 19.0 crore on the company's books as on March 31, 2023. The coverage indicators of the company stand comfortable as on date with an interest coverage ratio of 15.5 times and DSCR of 3.6 times in FY2023.

Credit challenges

Profitability remains exposed to highly volatile cotton yarn prices, however, the risk is mitigated to some extent as procurement is mostly 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, which mitigates the price fluctuation risk 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 – As the company's sales are 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

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 like recycling the textile as well as packaging waste generated, could have cost implications for the companies.

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

Liquidity position: Adequate

The liquidity position of Lahoti is **adequate** given the moderate utilisation of the working capital limits in the last 15-18 months. Further, comfort can also be drawn from the fact that the company had liquid investments of Rs. 58.4 crore and cash balance of Rs. 19.0 crore as on March 31, 2023. ICRA notes that the company does not have any capex plans and no debt obligations for the near term.

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	Corporate Credit Rating Methodology
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. 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), 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 windmills, 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	FY2022	FY2023
Operating income	892.0	318.5
PAT	23.6	16.0
OPBDIT/OI	4.01%	6.09%
PAT/OI	2.64%	5.01%
Total outside liabilities/Tangible net worth (times)	0.5	0.1
Total debt/OPBDIT (times)	1.7	0.4
Interest coverage (times)	6.9	15.5

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	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					July 06, 2023	December 29, 2022	January 31, 2022	October 8, 2020
1	**Export Bill Discounting/PCFC**	Short term	-	-	-	**[ICRA]A3+**	**[ICRA]A3+**	**[ICRA]A3+**
2	**Working Capital Facilities**	Long/Short term	113.60	-	**[ICRA]BBB (Stable)/ [ICRA]A3+**	-	-	-
3	**Letter of Credit**	Short term	(10.00)	-	**[ICRA]A3+**	**[ICRA]A3+**	**[ICRA]A3+**	**[ICRA]A3+**
4	**Unallocated**	Long/Short term	-	-	-	**[ICRA]BBB (Stable)/ [ICRA]A3+**	**[ICRA]BBB (Stable)/ [ICRA]A3+**	**[ICRA]BBB (Negative)/ [ICRA]A3+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Export Bill Discounting/PCFC	Simple
Letter of Credit	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 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	113.60	[ICRA]BBB (Stable)/ [ICRA]A3+
NA	**Letter of Credit**	NA	NA	NA	(10.00)	[ICRA]A3+

Source: Lahoti Overseas Limited

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: 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.

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