

January 24, 2025

Lahoti Overseas Ltd.: Ratings upgraded and removed from ISSUER NON-COOPERATING CATEGORY

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term/ Short term – Fund based Working Capital facilities	113.60	107.60	[ICRA]BBB (Stable)/ [ICRA]A3+; upgraded from [ICRA]BB+ (Stable)/ [ICRA]A4+; ISSUER NON-COOPERATING and removed from ISSUER NON-COOPERATING category
Short term – Non fund based Interchangeable	(10.00)	(10.00)	[ICRA]A3+; upgraded from [ICRA]A4+; ISSUER NON-COOPERATING and removed from ISSUER NON-COOPERATING category
Long term/ Short term – Unallocated	-	6.00	[ICRA]BBB (Stable)/ [ICRA]A3+; upgraded from [ICRA]BB+ (Stable)/ [ICRA]A4+; ISSUER NON-COOPERATING and removed from ISSUER NON-COOPERATING category
Total	113.60	113.60	

*Instrument details are provided in Annexure-I

Rationale

ICRA has upgraded and the ratings assigned to Lahoti Overseas Ltd. (Lahoti) and removed it from the Issuer Noncooperating Category, upon co-operation from the rated entity.

The rating action considers a healthy increase in the scale of operations in FY2024 and an expected modest improvement in the operational and financial performances of Lahoti over the medium term, supported by its established presence in the yarn export segment and the experience of its promoters. While its revenues improved by ~53% on a YoY basis to Rs. 487.6 crore, supported by an increase in cotton yarn volumes exported, its operating margin declined to 2.8% in FY2024 from 6.1% in FY2023 due to intense competition. In H1 FY2025, revenues increased by ~3% on a YoY basis to Rs. 274.3 crore and is likely to remain flat in H2 FY2025. The capital structure of the entity remained comfortable with TOL/TNW of 0.2 times as on March 31, 2024, and had minimal long-term borrowings. Owing to weak operating profitability, the interest coverage ratio moderated to 7.8 times in FY2024 from 15.5 times in FY2023 but remained healthy.

The ratings remain constrained by the susceptibility of its margins to foreign exchange rate fluctuations and volatility in the prices of cotton and cotton yarn. However, the risk related to volatility in cotton prices to an extent is mitigated with most of its procurements backed by confirmed orders. Further, high dependence on export incentives exposes its profitability and competitiveness in export markets to any adverse changes in export incentive structure.

The Stable outlook on the long-term rating reflects ICRA's expectation that the revenues and earnings of the company are likely to improve over the medium term. Further, the outlook underlines ICRA's expectation that the entity's incremental capex, if any, will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing ratings.

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 greige fabrics. The promoters have extensive experience of more than three decades in the business of exporting yarn, which has enabled the company to establish its position in the export market.

Comfortable capital structure – The capital structure of the company remained comfortable over the years, supported by its strong net worth position. The gearing stood comfortable at 0.2 times as on March 31, 2024, backed by low debt levels. The liquidity position remained adequate with unencumbered cash and liquid investments of Rs. 22.6 crore as of March 31, 2024.

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, 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.

Vulnerable to exchange rate fluctuations and changes in export incentive structure – While the company's sales are export oriented, the profit margins remain exposed to foreign exchange rate fluctuations. However, Lahoti has a policy of hedging 70-80% of its contracts through forward contracts. Like other exporters, high dependence on export incentives exposes the entities' profitability and competitiveness in the international markets to any adverse change in the export incentive structure.

Environment and Social Risks

Environmental 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 did not have 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.

Social risks: 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 entity's liquidity position is likely to remain adequate, supported by unencumbered cash and liquid investments of Rs. 22.6 crore as on March 31, 2024, and unutilised working capital limits. The average utilisation of the sanctioned working capital limits during the last 12 months ending in November 2024 stood at 22.4% of the sanctioned limits of Rs. 107.6 crore. ICRA notes that the company does not have any major debt-funded capex plan and no repayment obligation for the near term.

Rating sensitivities

Positive factors – ICRA could upgrade the company’s ratings if there is a substantial growth in its scale of operations, coupled with an improvement in its profitability.

Negative factors – Pressure on the company’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 trigger ratings downgrade include an interest cover (OPBDITA/ Interest) of less than 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 Overseas Ltd.

About the company

Lahoti Overseas Ltd. was incorporated in 1990 as a private limited company and later changed its status to a limited company in 1995. Since its inception, the company has been trading in cotton yarns. The company is managed by Mr. Ujwal R. Lahoti, Mr. Umesh R. Lahoti and Mr. Aadhitiya U. Lahoti. The company’s product range includes a wide variety of cotton yarns such as carded and combed ring spun yarns, ply yarns with count of 51s and above, and greige fabrics. The company’s registered office is in Mumbai and branch offices in Coimbatore and Bangladesh. 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 Overseas Ltd.	FY2023	FY2024	H1 FY2025*
Operating income	318.5	487.6	274.3
PAT	15.7	12.0	4.2
OPBDIT/OI	6.1%	2.8%	1.7%
PAT/OI	4.9%	2.5%	1.5%
Total outside liabilities/Tangible net worth (times)	0.2	0.2	0.5
Total debt/OPBDIT (times)	0.4	0.8	8.1
Interest coverage (times)	15.5	7.8	3.5

Source: Company, ICRA Research; * Unaudited; All ratios as per ICRA’s calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current rating (FY2025)							Chronology of rating history for the past 3 years					
Instrument	Type	Amount Rated (Rs Crore)	FY2025				FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Export Bill Discounting / PCFC	Short term	-	-	-	-	-	-	-	Dec 29, 2022	[ICRA]A3+	Jan 31, 2022	[ICRA]A3+
Working Capital Facilities	Long/Short term	107.60	Jan 24, 2025	[ICRA]BBB (Stable)/[ICRA]A3+	Sept 13, 2024	[ICRA]BB+ (Stable)/[ICRA]A4+; ISSUER NOT COOPERATING	Jul 06, 2023	[ICRA]BBB (Stable)/[ICRA]A3+	-	-	-	-
Letter of Credit	Short term	(10.00)	Jan 24, 2025	[ICRA]A3+	Sept 13, 2024	[ICRA]A4+; ISSUER NOT COOPERATING	July 06, 2023	[ICRA]A3+	Dec 29, 2022	[ICRA]A3+	Jan 31, 2022	[ICRA]A3+
Unallocated	Long/Short term	6.00	Jan 24, 2025	[ICRA]BBB (Stable)/[ICRA]A3+	-	-	-	-	Dec 29, 2022	[ICRA]BBB (Stable)/[ICRA]A3+	Jan 31, 2022	[ICRA]BBB (Stable)/[ICRA]A3+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Working Capital Facilities	Simple
Letter of Credit	Very Simple
Unallocated	Not Applicable

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	Working Capital Facilities	NA	NA	NA	107.60	[ICRA]BBB (Stable)/ [ICRA]A3+;
NA	Letter of Credit	NA	NA	NA	(10.00)	[ICRA]A3+;
NA	Unallocated	NA	NA	NA	6.00	[ICRA]BBB (Stable)/ [ICRA]A3+;

Source: Company

[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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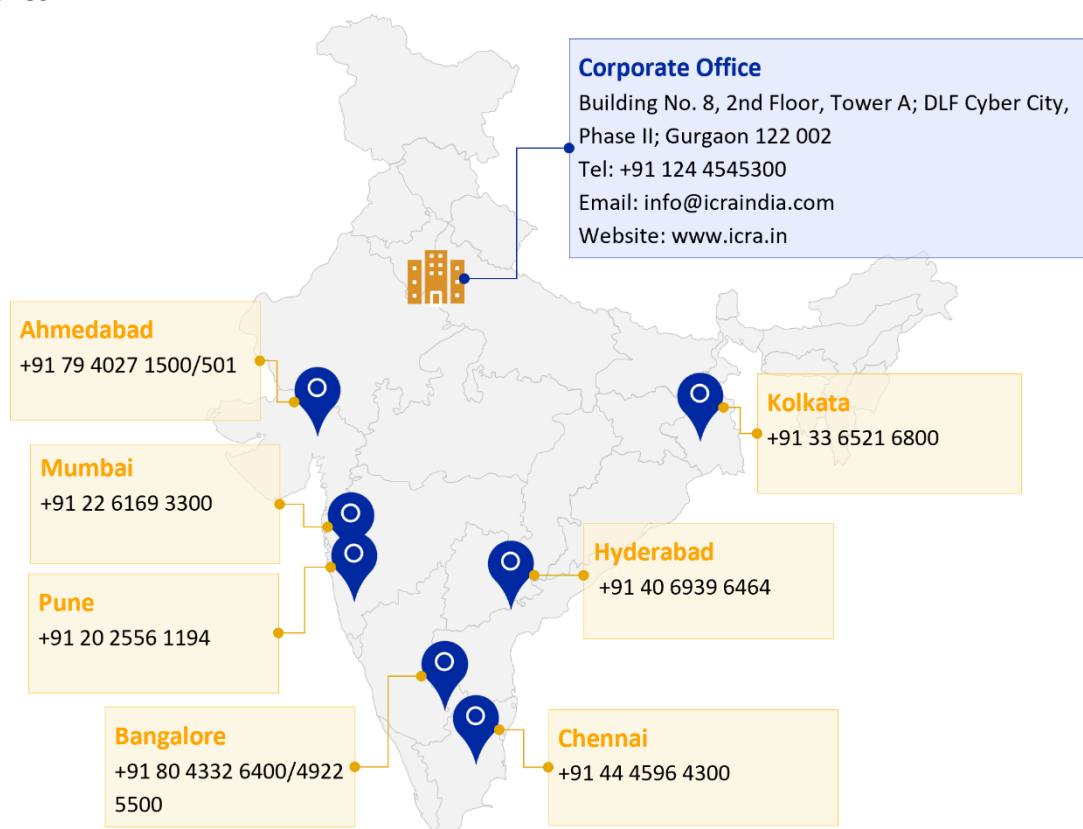


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