Lahoti Overseas Ltd.

March 08, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Limit	5.00	-	-
Short-term Fund-based Limit	101.00	71.44	[ICRA]A3+; reaffirmed
Short-term Non-fund Based Limit	-	(3.00)#	[ICRA]A3+; reaffirmed
Long-term and Short-term Unallocated Limits	1.45	36.01	[ICRA]BBB/[ICRA]A3+; reaffirmed and outlook revised to Stable from Negative
Total	**107.45**	**107.45**	

**Instrument details are provided in Annexure-1*

#Interchangeable sublimit within the short-term fund-based limit of Rs. 15.00 crore

Rationale

The revision in outlook factors in the robust operating performance of Lahoti Overseas Ltd. (Lahoti) in 9M FY2019 fuelled by a revival in export demand from China (owing to the normalising of its yarn reserves) as well as other destinations, such as Bangladesh, South Korea, Thailand and Vietnam. The increased competitiveness of the domestic cotton yarn (on account of the high prices prevailing in the international market), coupled with the depreciation of INR vis-à-vis USD, also led to an increase in exports. Consequently, the company reported a net profit of Rs. 15.31 crore on an operating income (OI) of Rs. 512.69 crore in 9M FY2019 over a net profit of Rs. 3.13 crore on an OI of Rs. 335.13 crore in 9M FY2018.

The ratings reaffirmation continues to factor in the significant experience of Lahoti's promoters in the textile business and the satisfactory capital structure, as reflected by a healthy net worth and a comfortable gearing of 0.47 time as on September 30, 2018 (0.73 time as on March 31, 2018). The company's liquidity position also remained comfortable supported by its healthy liquid investments. With improvement in the operating profit levels, the debt protection metrics also improved, as indicated by Total Debt/OPBDIT of 2.97 times (7.60 times as on March 31, 2018) and NCA/Total Debt of 22% (7% as on March 31, 2018) as on September 30, 2018.

The ratings are, however, constrained by the susceptibility of Lahoti's revenues to fluctuations in the prices of cotton and cotton yarn; however, the risk is mitigated to an extent with ~90% of the procurement being order-backed. ICRA also notes the margin susceptibility to foreign exchange rate fluctuations. Nevertheless, the company hedges ~70-80% of the export contracts through forward contracts. The increase in working capital intensity to 32% as on September 30, 2018 from 27% as on March 31, 2018, on account of stretched receivables, is another rating concern.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that Lahoti will register an improvement in its performance in the current fiscal supported by a pick-up in the global demand, while maintaining a comfortable capital structure and healthy credit metrics. The outlook may be revised to Positive if the company reports a sustained growth in its revenues, while maintaining healthy profit margins and a comfortable liquidity position. The outlook may be revised to Negative if the company is not able to scale up its operations or if its profitability declines, or if any delay in the recovery of receivables, or an increase in the inventory levels, weakens the liquidity profile.

Key rating drivers

Credit strengths

Extensive experience of promoters in cotton yarn trading - The company was set up in 1990 by the Lahoti family to trade in cotton yarn. The promoters have experience of more than three decades in yarn exports, enabling the company to establish its position in the export market.

Financial profile characterised by strong net worth, comfortable capital structure and healthy liquidity - The company's capital structure remained comfortable during the last three years, supported by strong net worth. Although the debt levels remained high as on March 31, 2018, the gearing stood comfortable at 0.73 time over 0.81 time as on March 31, 2017 backed by the strong net worth position. The gearing, as on September 30, 2018, stood at 0.47 time (excluding the bill discounting liability). The liquidity position remained comfortable as reflected from the cash balance of Rs. 5.00 crore and the liquid investments of Rs. 15.80 crore as on September 30, 2018.

Improvement in overall export demand supported growth in revenues and profitability - In 9M FY2019, Lahoti reported an OI of Rs. 512.69 crore at a YoY growth of 53% compared to Rs. 335.13 crore in 9M FY2018. This was due to the improvement in demand from countries such as China, Bangladesh, Turkey and South Korea in the current fiscal as well as the sharp depreciation of INR against USD. China witnessed a significant correction in its cotton yarn reserve stocks, leading to an increase in its cotton yarn imports. In H1 FY2019, Lahoti's exports to China increased to 24% of the total sales compared to 13% in FY2018.

Credit challenges

Increase in working capital intensity due to higher inventory level - With the average shipping time of the company's products to the customers of ~10 days, the inventory only reflects the goods in transit. The company's working capital intensity, measured by NWC/OI, increased to 32% in H1 FY2019 from 27% in FY2018, following the stretched receivables.

Profitability exposed to volatile cotton yarn prices; however, order-backed procurements mitigate risk - Lahoti procures yarn and fabric for trading from the domestic spinners in the markets of Tamil Nadu, Andhra Pradesh, Madhya Pradesh, Gujarat, Rajasthan and Haryana. The margins remain susceptible to volatilities in the domestic cotton yarn prices against the international prices. Nonetheless, almost 90% of the procurement is order-backed, mitigating the price fluctuation risk to an extent.

Margins susceptible to forex rate fluctuations; however, hedging through forward contracts mitigates risk - As the company's sales are export-oriented, its margins remain exposed to forex rate fluctuations. However, Lahoti hedges its contracts, which mitigate the risk to an extent. At present, it hedges ~70-80% of its contracts through forward contracts.

Liquidity position

The company has not availed any long-term loans at present. The working capital utilisation remained high in September 2018 due to the slower collection of receivables. Nonetheless, the average utilisation of the fund-based limits during January-December 2018 remained moderate at 52%. The increase in cash inflows in H1 FY2019, following the improvement in operations, led to an increase in the funds flow from operations. The free cash flows remained positive in the absence of any major capex. The liquidity position also remained comfortable with the company having a cash balance of Rs. 5.00 crore and liquid investments of Rs. 15.80 crore as on September 30, 2018.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Trading Companies
Parent/Group Support	Not applicable.
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

About the company

Lahoti was incorporated in 1990 to trade in yarn, greige fabric and textured yarn. Cotton yarn accounts for ~95% of its total trading sales. The company is currently managed by Mr. Ujwal R. Lahoti, Mr. Umesh R. Lahoti and Mr. Aadhitiya U. Lahoti. The company is ISO 9001:2008 certified with its registered office in Mumbai. It has also been certified by the Global Organic Textile Standard (GOTS), Netherlands, for dealing in 100% organic cotton products, and received the Oeko-Tex Standard certification. The Lahoti Group consists of two other entities, G. Varadan Ltd. and Lahoti Spintex Ltd., which are both non-functional and generate only rental income.

Lahoti has further ventured into the power generation business, and at present has four wind mills - one each at Rajasthan and Madhya Pradesh and two in Maharashtra. It has a 2.5 MW solar-power generation unit in Rajasthan. The income from power generation stood at Rs. 5.65 crore in FY2018.

In FY2018, the company reported a net profit of Rs. 3.69 crore on an OI of Rs. 459.39 crore, compared to a net profit of Rs. 11.68 crore on an OI of Rs. 565.95 crore in the previous year. In 9M FY2019, it reported a net profit of Rs. 15.31 crore on an OI of Rs. 512.69 crore.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	565.95	459.39
PAT (Rs. crore)	11.68	3.69
OPBDIT/OI (%)	2.98%	2.32%
RoCE (%)	11.19%	5.83%
Total Debt/TNW (times)	0.81	0.73
Total Debt/OPBDIT (times)	5.30	7.60
Interest Coverage (Times)	2.48	2.26

Source: Financial statements of Lahoti and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2019)					Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating		Date & Rating in FY2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
					Mar-19	Jun-18	Nov-17	Sep-17	Aug-16	Sep-15
1	Cash Credit	Long Term	-	-	-	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Export Bill Discounting/ Packing Credit in Foreign Currency	Short Term	71.44	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+
3	Letter of Credit	Short Term	(3.00) #	-	[ICRA]A3+	-	-	-	-	-
4	Unallocated amount	Long Term and Short Term	36.01	-	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Negative)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+

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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

ISIN No	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Export Bill Discounting/ Packing Credit in Foreign Currency	NA	NA	NA	71.44	[ICRA]A3+
NA	Letter of Credit	NA	NA	NA	(3.00) #	[ICRA]A3+
NA	Unallocated Limits	NA	NA	NA	36.01	[ICRA]BBB(Stable)/[ICRA]A3+

#Interchangeable sublimit within the short-term fund-based limit of Rs. 15.00 crore
Source: Lahoti Overseas Ltd.

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Not applicable	-	-

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