Lagnam Spintex Limited

April 26, 2019

Summary of rating action

Instrument	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Limit	149.06	149.06	[ICRA]BBB- reaffirmed; outlook revised to Negative from Stable
Short-term Fund-based Limit	1.00	1.00	[ICRA]A3 reaffirmed
Short-term Non-fund Based Limit	1.53	1.53	[ICRA]A3 reaffirmed
Total	**151.59**	**151.59**	

Material event

Lagnam Spintex Limited (LSL or the company) has announced its results for H2FY2019 and FY2019 on April 16, 2019.

Impact of the material event

The company's long-term and short-term ratings remain unchanged at [ICRA]BBB-/[ICRA]A3; however, the outlook on the long-term rating is revised to Negative from Stable due to a stretch in the working capital cycle and a moderation in the liquidity position as evident from the negative cash flows. The receivable cycle of the company increased from the earlier 30-45 days to 60-65 days in FY2019, which coupled with a modest decline in the operating income to Rs. 80.42 crore in FY2019 from Rs. 84.06 crore in FY2018 has led to an increase in the working capital intensity, as reflected from NWC/OI of 43% in FY2019 as compared to 27% in FY2018. Further, the total debt of the company increased to Rs. 121.78 crore as on March 31, 2019 from Rs. 48.71 crore as on March 31, 2018 owing to large-term debt availed to fund the ongoing capex, the benefits of which are yet to accrue.

The ongoing large debt-funded capital expenditure will enhance the overall yarn capacity and also lead to the production of higher value-added ring spun yarn, which would support the growth in scale and profit margins. However, the capital structure and debt coverage indicators will remain average over the near to medium term, till commensurate returns start flowing from the new project. While the company continues to benefit from the established presence and the demonstrated ability of the promoters to undertake capital expansion, the ability to ramp up sales from the new plant and to derive higher margins will determine the rating direction. Further, ICRA notes that the working capital limit utilisation currently remains high and enhancement in working capital limits would remain imperative to support the operations of the company, going forward.

The assigned ratings continue to derive comfort from the company’s moderate debt protection metrics, primarily supported by the lower interest costs because of interest subsidies received from the Central and the state government. Further, the ratings favourably factor in the significant experience of the promoters, that spans over 30 years in the spinning industry, and the company’s established and reputed customer base, which ensures repeat business.

LSL’s profitability remains exposed to fluctuations in the cotton prices and yarn realisations, because of the seasonal nature of cotton availability, which necessitates stocking up of inventory during the harvesting season, and the intense competition in the fragmented industry.

The previous detailed rating rationale is available on the following link: Click here

Outlook: Negative

The Negative outlook factors in the possibility of a further weakening of the cash flows and liquidity in the subsequent quarters, due to the sustained pressure on receivable cycle, given the overcapacity in the denim industry, the key customer industry for the company's existing products. The outlook may be revised to Stable if the project is commissioned in a timely manner and is able to achieve the desired operating and financial parameters, thereby easing the liquidity position of the company. The ratings may be downgraded in case of any significant deterioration in the coverage metrics, substantial increase in operating costs, elongation in cash conversion cycle or time/cost overruns in the ongoing expansion project.

Key rating drivers

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 a Chief Executive Director and with JCT Ltd. as an Executive Director.

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

Fiscal benefits available to textile units – The company is eligible for interest subsidies from the Central and state governments under the Technology Upgradation Fund Scheme (TUFS) and the Rajasthan Investment Promotion Scheme (RIPS), respectively. This lowers the interest costs and supports the company's profitability, resulting in comfortable interest coverage ratio of 4.42 times in FY2019.

Credit challenges

Risks associated with new project – LSL is exposed to the risk associated with the timely completion and stabilisation of the expansion project without any significant cost and time overruns.

Leveraged capital structure – The debt-funded capex undertaken now and in the past coupled with high working capital requirements have resulted in a leveraged capital structure— the gearing was 2.29 times and TOL/ TNW was 2.55 times as on March 31, 2018.

High working capital intensity – The company's working capital intensity of operations is high, owing to its elongated receivable cycle and high inventory holdings due to the seasonal nature of cotton availability, which necessitates stocking up of cotton during the harvesting season. Additionally, the low credit period allowed by its suppliers also increases the overall working capital intensity. The receivables cycle has increased from 30-45 days to 60-65 days in FY2019, resulting in higher working capital intensity, as reflected by NWC/ OI of 27% in FY2018 and 43% in FY2019. Moreover, the stocking requirements also expose its profitability to fluctuations in cotton prices.

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

Liquidity position

The company's liquidity position currently remains moderate as indicated by adequate cash accruals needed to support the debt repayments, average cash flows and high average utilisation of working capital bank limits. ICRA, however, notes that the company has high debt repayments scheduled from FY2021 onwards and thus the stabilisation and revenue generation of the new unit would remain important from a credit perspective.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Textiles Industry–Spinning
Parent/Group Support	Not applicable.
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

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 has gradually been augmented to 1,920 rotors, with a current annual manufacturing capacity of 6,000 metric tonne (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.

The company is setting up a new unit at Bhilwara (Rajasthan) at a total cost of Rs. 128.00 crore for the manufacturing of ring-spun yarn. With 25,536 spindles, the unit would have a total yarn manufacturing capacity of 18.60 MT per day. The plant is expected to be operational from July 2019.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	84.06	80.42
PAT (Rs. crore)	4.71	4.78
OPBDIT/OI (%)	12.80%	14.01%
RoCE (%)	11.50%	10.16%
Total Debt/TNW (times)	1.85	2.29
Total Debt/OPBDIT (times)	4.53	10.81
Interest coverage (times)	3.78	4.42

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Current Rating (FY2020) Date & Rating April 2019	Chronology of Rating History for the past 3 years Date & Rating in FY2019 November 2018	Date & Rating in FY2019 October 2018	Date & Rating in FY2019 September 2018
1	Term Loan	Long Term	129.06	**100.94**	**[ICRA]BBB- (Negative)**	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Stable)**
2	Cash Credit	Long Term	20.00	-	**[ICRA]BBB- (Negative)**	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Stable)**
3	Bank Guarantee	Short Term	1.53	-	**[ICRA]A3**	**[ICRA]A3**	**[ICRA]A3**	**[ICRA]A3**
4	Standby line of credit	Short Term	1.00	-	**[ICRA]A3**	**[ICRA]A3**	**[ICRA]A3**	**[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

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	35.06	[ICRA]BBB- (Negative)
NA	Term Loan - New	FY2018	NA	FY2028	94.00	[ICRA]BBB- (Negative)
NA	Cash Credit	NA	NA	NA	20.00	[ICRA]BBB- (Negative)
NA	Bank Guarantee	NA	NA	NA	1.53	[ICRA]A3
NA	Standby line of credit	NA	NA	NA	1.00	[ICRA]A3

Source: Lagnam Spintex Limited

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