October 08, 2020

Lahoti Overseas Ltd.: Ratings reaffirmed

Summary of rating action

Instruments*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term, Fund-based Limits	71.44	66.44	[ICRA]A3+; reaffirmed
Short-term, Non-Fund based Limit	(3.00)	(3.00)	[ICRA]A3+; reaffirmed
Long-term & Short-term Unallocated Limits	36.01	41.01	[ICRA]BBB(Negative)/[ICRA]A3+ reaffirmed
Total	**107.45**	**107.45**	

**Instrument details are provided in Annexure 1*

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

Rationale

The reaffirmation of the Negative outlook on the long-term rating of [ICRA]BBB reflects ICRA's opinion that the operating performance of Lahoti Overseas Limited (Lahoti) will continue to remain pressurised in FY2021 due to the nationwide lockdown imposed by the Government of India and weak demand conditions in Q1[1] FY2021. Consequently, the turnover of Lahoti registered a decline of 38% year-on-year (YoY) to Rs. 64.01 crore in Q1 FY2021 from Rs. 102.43 crore in Q1 FY2020, even though there is a gradual recovery of demand in the export markets, as indicated by the increase in volume of cotton yarn exported from India in June–July 2020 on a sequential basis. ICRA will continue to monitor the performance in the current fiscal related to recovery in demand conditions and sustenance of profitability levels.

The reaffirmed ratings continue to factor in the extensive experience of the promoters of Lahoti Overseas Ltd. (Lahoti) in the textile business and its healthy net worth position, leading to a comfortable gearing of 0.42 time as on March 31, 2020. The liquidity position of the company has remained adequate, supported by healthy liquid investments.

The ratings, however, factor in the weakness in the company's operating performance in FY2020 because of continued weakness in export demand owing to China's subdued yarn imports, fall in demand from other export markets along with the impact of the Covid-19 pandemic. Additionally, an increase in domestic cotton yarn prices to a level higher than the international prices led to the decline in exports as well as sales realisations. ICRA also notes the susceptibility of the margins to the foreign exchange rate fluctuations as well as to the volatility in the prices of cotton and cotton yarn. However, with ~90% of the procurement being order-backed, it mitigates the price risks to an extent.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in the trading of cotton yarn—Lahoti Overseas Ltd. 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.

[1] *Q1: Indicates first quarter of a financial year, April to June*

Financial profile characterised by strong net worth leading to comfortable capital structure - The capital structure of the company has remained comfortable in the past three years, supported by its strong net worth. Backed by low debt levels, the gearing stood comfortable at 0.42 time as on March 31, 2020 (0.57 time as on March 31, 2019). The liquidity position has remained adequate with liquid investments of Rs. 7.87 crore, and free cash balance of Rs. 5.63 crore on the company's books as on March 31, 2020.

Credit challenges

Weak export market conditions exert pressure on revenues with a 38% decline in FY2020, top line to be impacted in FY2021 by Covid-19 related challenges - Lahoti's operating income(OI) as well as profitability were impacted in FY2020 by the continued sluggish demand from China, competitive pressure from Pakistan and Vietnam, along with the outbreak of Covid-19, which affected the OI in Q4 FY2020. Lahoti registered an OI of Rs. 64.01 crore in Q1 FY2021, which declined 38% YoY from Rs. 102.43 crore in Q1 FY2020, while the sequential decline was 34% (Rs. 97.82 crore in Q4 FY2020). The operating performance is expected to be impacted in FY2021, as global trade recovers from the aftermath of the pandemic.

Profitability remains exposed to highly volatile cotton yarn prices; however, with most procurement being backed by confirmed orders, the risk is mitigated to some extent - 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, mitigating price fluctuation risks to an extent. Furthermore, high cotton yarn prices in the domestic market vis-à-vis the international prices has dented the operating profitability of the company and, thus, the coverage indicators. The operating profit margin (OPM) in FY2020 stood at 2.71% over 4.54% in FY2019. Consequently, the net profit margin(NPM) reduced to 1.36% in FY2020, from 2.52% in the previous year. With the decline in operating profit, the interest coverage ratio weakened to 3.37 times in FY2020 compared to 4.91 times in FY2019, while Net Cash Accruals (NCA)/Total Debt reduced to 16% in FY2020 from 26% in FY2019. ICRA notes that the profitability in Q1 FY2021 has seen an improvement due to better sales realisation, with the OPM and NPM at 5.00% and 5.32%, respectively. Moreover, the NPM was impacted by notional gain on investments. Sustenance of profitability margins remains critical and the same will continue to be a key rating sensitivity for the current fiscal.

Profitability also susceptible to foreign exchange rate fluctuations - With the company's sales being 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.

Liquidity position: Adequate

The liquidity position of Lahoti is **adequate** given the moderate utilisation of the working capital limits with the average utilisation of the fund-based sanctioned limit at 28% during the 15-month period ended August 2020. Further, comfort can also be drawn from the fact that the company had liquid investments of Rs. 7.87 crore, and free cash balance of Rs. 5.63 crore as on March 31, 2020. Also, there is no long-term debt repayment in the medium term.

Rating sensitivities

Positive triggers – The outlook may be revised to Stable if there is improvement in sales and profitability on a sustained basis.

Negative triggers – The ratings may be downgraded if there is higher than anticipated decline in sales and profit margins as well as deterioration in the company's liquidity profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

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 currently 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), 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 wind mills, one each at Rajasthan and Madhya Pradesh and two in Maharashtra. It also has a 2.5MW solar power generation unit in Rajasthan.

The company recorded a net profit of Rs. 5.40 crore on an OI of Rs. 396.37 crore in FY2020, and a net profit of Rs. 3.45 crore on an OI of Rs. 64.91 crore in Q1 FY2021 (unaudited numbers).

Key financial indicators

	FY2019 Audited	FY2020 Audited	Q1FY2021 Unaudited
Operating Income (OI)	641.76	396.37	64.91
PAT	16.16	5.40	3.45
OPBDITA/OI (%)	4.54%	2.71%	5.00%
PAT/OI (%)	2.52%	1.36%	5.32%
Total Outside Liabilities/Tangible Net Worth (times)	0.67	0.54	-
Total Debt/ OPBDITA (times)	2.48	5.08	-
Interest Coverage (times)	4.91	3.37	6.10
DSCR	4.29	3.69	-

Amounts in Rs. crore
OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit after Tax; DSCR: Debt Service Coverage Ratio
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

		Current Rating (FY2021)				Chronology of Rating History for the Past 3 Years				
					Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019		Date & Rating in FY2018	
	Instrument	Type	Amount Rated	Amount Outstanding	October 8, 2020	February 27, 2020	March 8, 2019	June 8, 2018	November 20, 2017	September 7, 2017
1	Export Bill Discounting/ Packing Credit in Foreign Currency	Short-term	66.44	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+
2	Letter of Credit	Short-term	(3.00)	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+
3	Unallocated amount	Long-term & Short-term	41.01	-	[ICRA]BBB(Negative)/[ICRA]A3+	[ICRA]BBB (Negative)/ [ICRA]A3+	[ICRA]BBB (Stable) /[ICRA]A3+	[ICRA]BBB (Negative)/ [ICRA]A3+	[ICRA]BBB (Stable) /[ICRA]A3+	[ICRA]BBB (Stable) /[ICRA]A3+

Amount in Rs. crore

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	Current Rating and Outlook
-	Export Bill Discounting/ Packing Credit in Foreign Currency	-	-	-	66.44	[ICRA]A3+
-	Letter of Credit	-	-	-	(3.00)	[ICRA]A3+
-	Unallocated amount	-	-	-	41.01	[ICRA]BBB(Negative)/ [ICRA]A3+

Amount in Rs. crore *Source: Lahoti Overseas Ltd.*

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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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