December 07, 2022

Lambodhara Textiles Limited: Ratings upgraded; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Term Loans	36.43	32.75	[ICRA]A- (Stable); upgraded from [ICRA]BBB+ (Positive)
Long-term Fund-based Working Capital Facilities	15.00	15.00	[ICRA]A- (Stable); upgraded from [ICRA]BBB+ (Positive)
Short Term – Non-Fund Based	1.13	1.13	[ICRA]A2+; upgraded from [ICRA]A2
Short Term – Unallocated	1.41	5.09	[ICRA]A2+; upgraded from [ICRA]A2
Total	**53.97**	**53.97**	

**Instrument details are provided in Annexure-1*

Rationale

The rating upgrade reflects an improvement in performance of Lambodhara Textiles Limited (LTL) in FY2022 in terms of revenues and cash accruals, which are likely to be robust in the current fiscal as well. In FY2022, the company's revenues surged around 50% (albeit on a low base) to Rs.176 crore, driven by its established market position in the synthetic yarn industry and recovery in demand with better volumes and prices from the key markets. This coupled with healthy operating margins led to generation of healthy cash accruals of close to Rs.24 crore. Moreover, the debt coverage indicators also improved with an interest coverage and TOL/TNW of 34 times and 0.8 times, respectively against 7.9 times and 0.9 times, respectively in FY2021. The performance is likely to further improve in the current fiscal with an expected revenue growth of approximately 15% on the back of steady demand, with performance supported by favourable revenues in H1 FY2023. LTL's revenues are likely to grow steadily over the medium term with the expected availability of capacity additions in the coming fiscal. Favourable yarn realisations have supported LTL's operating margins to remain healthy at ~15.6% in FY2022 despite decline from the high level of FY2021. The company's margins are expected to continue at around 15% over the medium term, backed by its focus on value-added yarn. LTL's earnings remain supported by a steady source of interest income and captive power generation. LTL's credit profile continues to be supported by its limited reliance on external debt, with net debt to operating profits of 0.5 times in FY2022. Despite the ongoing capital expenditure towards the end of the current fiscal/beginning of the next fiscal, ICRA expects LTL's debt protection metrics to remain at comfortable levels. The ratings favourably consider the healthy capacity utilisation levels and value-added synthetic yarn in the overall product mix. Further, prudent working capital management by the company, translating into low working capital intensity of operations, also provides comfort to the ratings, while maintaining a strong liquidity position.

However, the ratings are constrained on account of LTL's moderate scale of operations, susceptibility of its earnings to fluctuations in raw material prices and exchange rates and moderate customer concentration risks.

The Stable outlook reflects ICRA's expectations that LTL would continue to maintain a healthy profitability and working capital position, thereby maintaining comfortable debt protection metrics and liquidity position.

Key rating drivers and their description

Credit strengths

Healthy improvement of performance in FY2022; momentum likely to continue in current fiscal – The extensive experience of the promoters of more than two decades has aided it in establishing a healthy relationship with its client base and dealer network, thus supporting its order flows. The same has been illustrated by the steady performance witnessed over the years except in FY2021, when its performance was affected mainly by the pandemic. The revenues were driven by robust demand and upward movement in price realisations for synthetic yarn in FY2022. The company had registered revenues of Rs.176.7 crore in FY2022 with a YoY growth of 49%. Revenues are expected to be supported by the continued demand and healthy realisation in FY2023. The same was witnessed from revenues worth Rs.113 crore in H1 FY2023. For the full year, revenues are expected to be more than Rs.200 crore.

Comfortable financial profile – LTL's financial profile remains comfortable, with its conservative capital structure and adequate coverage indicators. The company's dependence on external debt has reduced in the recent past, driven by the growth in earnings from operations, which has resulted in total debt to operating profits improving to 1.5 times in FY2022. Going forward, LTL's credit profile is expected to remain comfortable on the back of limited funding requirements, relatively stable earnings and adequate cash reserves held despite debt-funded capex.

Diversified product portfolio – LTL enjoys an established market position in the synthetic yarn segment, with a diversified product base across fibres, blends and count ranges, which limit the impact of demand risks on any one product segment. Further, LTL's presence in the value-added segment and the customised nature of major portion of its products have lent some stability to volumes and earnings over the years.

Credit challenges

Moderate scale of operations and concentration risks – LTL's scale of operations remains moderate, with revenues of Rs.176 crore in FY2022. Revenue from yarn manufactured and sold (excluding the traded goods) has been limited, primarily owing to capacity constraints, which limit economies of scale to an extent in a capital-intensive sector. However, the ongoing addition of capacity is expected to aid LTL's revenue growth over the medium term. Revenues are also exposed to asset and customer concentration risks, though the OI generated from the top ten customers reduced steadily over the years. These risks are mitigated to some extent by LTL's presence in the value-added segment, which supported its profitability. Besides, established relationships with its suppliers and key customers lend some stability to volumes and earnings.

Exposure to fluctuations in raw material prices and exchange rates – LTL's operating profitability remains exposed to volatility in key raw material prices including polyester and viscose as it has relatively limited pricing flexibility in a fragmented industry. Its earnings have been protected to an extent by the company's presence across a diversified product base and in niche segments. Further, its profitability is exposed to fluctuations in exchange rates given its import requirements and foreign exchange denominated loans, though the risk is limited by some natural hedge enjoyed through exports.

Liquidity position: Strong

LTL's liquidity position is expected to remain strong, supported by steady earnings from operations, cash and liquid investments held and adequate unutilised lines of credit. Availability of free cash buffer, including cash reserves, liquid investments and unutilised working capital limits together stood at around Rs.45 crore as on September 30, 2022. The average utilisation of its fund-based limits over the past 12 months ending in October 2022 was low at less than 5%. LTL has debt repayment obligations of around ~Rs.8 crore in FY2023, post which repayment obligations are likely to be around Rs.10-11 crore per annum on account of debt-funded capex. The company's accruals from operations are expected to be comfortable at ~Rs.25 crore per annum over the medium term, supported by healthy revenues and earnings expected for the entity.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company registers a substantial growth in revenues and earnings, while maintaining its comfortable debt protection metrics and liquidity position.

Negative factors – Pressure on LTL's ratings could arise if there is a sustained pressure on its operating performance or any major debt-funded capex, which would adversely impact its capital structure and liquidity position. Specific metrics that may lead to a downgrade include net debt to operating profits deteriorating to more than 1.5 times on a sustained basis.

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 statements of the rated entity.

About the company

LTL, incorporated in 1994 in Coimbatore, manufactures and sells synthetic yarn. The company manufactures 100% synthetic yarns such as PSF yarn, VSF yarn and blended yarns like PV yarn and PC yarns in the count range of 30s to 60s. It also manufactures value-added synthetic yarns such as neppy yarn, slub yarn, multi-twist yarn and siro yarn, among others. LTL has installed three windmills and a solar power plant with a total power generation capacity of 6.05 MW and owns a commercial complex in Coimbatore with a built-up area of 28,000 sq. feet.

Key financial indicators

LTL	FY2021	FY2022
Operating Income (Rs. crore)	118.3	176.7
PAT (Rs. crore)	10.6	15.8
OPBDITA/OI (%)	19.6%	15.6%
PAT (%)	9.0%	9.0%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.8
Total Debt/OPBDITA (times)	1.8	1.4
Interest Coverage (times)	7.9	34.1
DSCR	2.5	2.5

Source: LTL

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on September 30, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					December 07, 2022	Feb 01, 2022	July 12, 2021	April 08, 2020	July 04, 2019
1	Term Loans	Long-term	32.75	32.75	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Working Capital facilities	Long-term	15.00	-	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	Non-fund based facilities	Short-term	1.13	-	[ICRA]A2+	[ICRA]A2	[ICRA]A2	[ICRA]A3+	[ICRA]A3+
4	Unallocated limits	Short-term	5.09	-	[ICRA]A2+	[ICRA]A2	[ICRA]A2	[ICRA]A3+	[ICRA]A3+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Fund Based-Term Loan	Simple
Long-term – Fund Based – Cash credit	Simple
Short Term - Non-Fund Based	Very Simple
Short Term – 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, is available on ICRA's website: click here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	FY2017-FY2023	-	FY2025-FY2030	32.75	[ICRA]A- (Stable)
NA	Cash Credit	-	-	-	15.00	[ICRA]A- (Stable)
NA	Non-fund Based facility	-	-	-	1.13	[ICRA]A2+
NA	Unallocated	-	-	-	5.09	[ICRA]A2+

Source: *LTL*

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

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Kaushik Das
+91 33 7150 1100
kaushikd@icraindia.com

Gaurav Singla
+91 124 4545 366
gaurav.singla@icraindia.com

Vilasagaram Nandakishore
+91 40 4067 6526
vilasagaram.nandakishore@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches