December 07, 2023

Lambodhara Textiles Limited: Ratings reaffirmed and rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based term loans	32.75	50.77	[ICRA]A- (Stable); reaffirmed and assigned for enhanced amount
Long-term fund-based working capital facilities	15.00	15.00	[ICRA]A- (Stable); reaffirmed
Short-term – non-fund based	1.13	1.13	[ICRA]A2+; reaffirmed
Short-term – unallocated	2.54	1.33	[ICRA]A2+; reaffirmed
Total	**51.42**	**68.23**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation reflects continued improvement in revenues of Lambodhara Textiles Limited (LTL) in FY2023 by around 11%, driven by its established market position in the synthetic yarn industry and expectations of growth in the current fiscal owing to improved volumes and expected capacity additions in this quarter. However, this was accompanied by reduction in the operating margins in FY2024 owing to pressure on realisations. LTL's earnings remain supported by a steady source of interest income and captive power generation. The ratings continue to be supported by the healthy financial profile of the company, as reflected by an interest coverage of 8.8 times in FY2023 and TOL/TNW of 0.8 times in FY2023. The debt coverage indicators are expected to moderate in the current fiscal, given the moderation in earnings and debt-funded capex towards solar power plant and spindle capacity addition. Nevertheless, coverage indicators are likely to remain adequate. 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, 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 healthy debt coverage indicators and comfortable liquidity position.

Key rating drivers and their description

Credit strengths

Extensive experience of the promoters – Extensive experience of the promoters of more than two decades has aided it in establishing healthy relationships 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 continued demand and upward movement in price realisations for synthetic yarn in FY2023. The company had registered revenues of Rs. 211.4 crore in FY2023 with a YoY growth of 11%. The revenues are expected to be supported by increase in installed capacities. For the full year, LTL's revenues are expected to be more than Rs.210 crore.

Comfortable financial profile – LTL's financial profile remains comfortable, with its conservative capital structure and adequate coverage indicators. Though there is moderation in coverage metrics and capital structure owing to debt addition towards the solar power plant and increase in spindle capacity, the total debt to operating profits remained comfortable at 1.8 times and TOL/TNW at 0.8 times in FY2023. Going forward, LTL's credit profile is expected to remain comfortable on the back of limited funding requirements and adequate cash reserves held despite the debt-funded capex.

Diversified product portfolio – LTL enjoys an established market position in the synthetic yarn segment, with a diversified product base across fibers, 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 the major portion of its products have lent some stability to volumes and earnings, over the years.

Credit challenges

Moderation in earnings and debt coverage indicators in current fiscal – Despite the increase in raw material prices in the last two years, the company was able to maintain its operating margins at ~15%, supported by better yarn price realisations. However, due to pressure on demand, yarn prices started witnessing downtrend in the recent quarters. This coupled with an increase in raw material prices had resulted in moderation on margins to 9.6% in H1 FY2024. The cash accruals are expected to fall by ~50% in the current fiscal on YoY basis. Moreover, the debt-funded capex and resulted increase in finance cost and repayment obligations, the debt coverage indicators are expected to moderate in the current year.

Moderate scale of operations and concentration risks – LTL's scale of operations remains moderate, with revenues of Rs. 211.4 crore in FY2023. Revenue from yarn manufactured and sold (excluding the traded goods) has been limited, primarily owing to capacity constraints, which limit the economies of scale to an extent in a capital-intensive sector. However, the recent capacity addition 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.

Environmental and Social Risks

Environmental considerations: As LTL operates in the textiles sector and is involved in spinning manmade yarn, its exposure to environmental risks emanates from the climate transition risks that could affect the prices of crude oil derivatives used for manmade fibre blending. Nevertheless, the environmental risk is mitigated in view of the relatively inelastic long-term demand from the end-user industries, including apparels and footwear, which should enable LTL to pass on the associated increase in the costs to the buyers. This apart, the manufacturing process involves generation of waste. If these are discharged without adequate treatment (in breach of the statutorily permissible levels), it could invite fines and penalties. While the above has not resulted in material implication so far, policy actions towards waste management such as the need to recycle the packaging waste could have cost implications for entities in the sector, including LTL.

Social considerations: LTL is exposed to the risk of disruptions due to inability to manage human capital in terms of their safety and the overall well-being. Further, any significant increase in wage rates may impact the cost structure and margins to an extent. Measures taken by the company towards employee welfare and healthy value addition in the business have resulted in no material impact on LTL's performance from the above risks so far.

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.52 crore as on October 31, 2023. The average utilisation of its fund-based limits over the past 12 months ending in October 2023 stood low at 11%. LTL has debt repayment obligations of ~Rs.12 crore in FY2024. The company's accruals from operations are expected to be comfortable at ~Rs.16 crore per annum over the medium term, supported by healthy revenues and earnings 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 any sustained pressure on its operating performance or any major debt-funded capex, which would adversely impact its capital structure and liquidity position. A specific metric that may lead to ratings downgrade includes Debt to operating profits deteriorating to more than 2.5 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 Polyester Staple Fibre yarn, Viscose Staple Fibre yarn and blended yarns like Poly Viscose yarn and Poly Cotton 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 9.35 MW and owns a commercial complex in Coimbatore with a built-up area of 28,000 sq. feet.

Key financial indicators (audited)

LTL	FY2022	FY2023
Operating income	189.9	211.4
PAT	15.8	17.3
OPBDIT/OI	14.5%	15.0%
PAT/OI	8.3%	8.2%
Total outside liabilities/Tangible net worth (times)	0.8	0.8
Total debt/OPBDIT (times)	1.5	1.8
Interest coverage (times)	34.1	8.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as of Sept 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022		Date & rating in FY2021
					Dec 07, 2023	Mar 01, 2023	Dec 07, 2022	Feb 01, 2022	Jul 12, 2021	Apr 08, 2020
1	**Term Loans**	Long-term	50.77	52.62	**[ICRA]A- (Stable)**	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)
2	**Working Capital facilities**	Long-term	15.00	-	**[ICRA]A- (Stable)**	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)
3	**Non-fund based facilities**	Short-term	1.13	-	**[ICRA]A2+**	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2	[ICRA]A3+
4	**Unallocated limits**	Short-term	1.33	-	**[ICRA]A2+**	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2	[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 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	Term Loans	FY2017-FY2023	-	FY2025-FY2030	50.77	[ICRA]A- (Stable)
NA	Cash Credit	-	-	-	15.00	[ICRA]A- (Stable)
NA	Non-fund Based facility	-	-	-	1.13	[ICRA]A2+
NA	Unallocated	-	-	-	1.33	[ICRA]A2+

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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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.

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