

January 31, 2025

Lambodhara Textiles Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long term – Fund based - Term loans	50.77	50.01	[ICRA]A- (Stable); reaffirmed
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	1.33	2.09	[ICRA]A2+; reaffirmed
Total	68.23	68.23	

*Instrument details are provided in Annexure I

Rationale

The ratings reaffirmation on the bank lines of Lambodhara Textiles Limited (LTL) considers an expected improvement in operational and financial performances over the medium term, supported by its established market position in the synthetic yarn segment, experience of its promoters and recovery witnessed in H1 FY2025. While LTL's performance moderated in FY2024 with revenues declining by 7.9% on a YoY basis to Rs. 194.7 crore due to a weak demand environment, it recovered in H1 FY2025 with revenues increasing by 14.4% on a YoY basis, supported by an increase in volumes and realisation. While diseconomies of scale and a decline in realisation resulted in the operating margins weakening to 8.7% in FY2024 compared to 15% in FY2023, the same improved to 11% in H1 FY2025. The ratings continue to be supported by the healthy financial profile of the company, as reflected by TOL/TNW of 0.8 times in FY2024. Despite moderation in profitability in FY2024, the coverage indicators remained healthy with interest coverage ratio and debt service coverage ratio of 5.3 times and 1.4 times, respectively. Going forward, LTL's earnings are likely to remain supported by its steady source of interest income and its captive power generation capability, which is meeting ~90% of its power requirements. The ratings also favourably consider the healthy capacity utilisation level and value-added synthetic yarn in the overall product mix. Further, prudent working capital management by the company, translating into low working capital intensity operations, provides comfort to the ratings, while maintaining a strong liquidity position.

The ratings, however, remain constrained by 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 ratings are also constrained by the fragmented structure of the spinning industry, leading to competition among many organised and unorganised players, keeping margins under check.

The Stable outlook on the long-term rating reflects ICRA's expectation that LTL is likely to improve its revenues and operating metrics over a medium term. Further, the outlook underlines ICRA's expectation that the entity's incremental capex, if any, to further increase the capacity will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing ratings.

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 LTL in establishing healthy relationships with its customers and dealer network, thus supporting its order flows. The company has

witnessed steady performance over the last three years, albeit some moderation in FY2024 due to weak demand conditions. Besides, increase in installed capacities by the end of FY2024 led to a rise in volumes, which in turn helped the company to register a revenue growth of 14.4% to Rs. 116.5 crore in H1 FY2025.

Comfortable financial profile – LTL's financial profile remains comfortable with a conservative capital structure and adequate coverage indicators. Despite some moderation in coverage indicators due to an increase in debt availed for the solar power plant and an increase in spindle capacity, the total debt/operating profits remained comfortable at 2.1 times and TOL/TNW at 0.8 times in H1 FY2025. Besides, its coverage indicators remained healthy with interest coverage ratio and debt service coverage ratio of 3.6 times and 1.5 times, respectively in H1 FY2025. Going forward, LTL's credit profile is likely to remain comfortable, supported by limited debt-funded expansion planned and adequate cash reserves.

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

Moderate scale of operations and concentration risks – LTL's scale of operations remains moderate, with revenue of Rs. 194.7 crore in FY2024. Revenues 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. Revenues of LTL are also exposed to asset and customer concentration risks with ~ 60% of revenues derived from the top 10 customers in FY2024 (~44% in FY2023). These risks are mitigated to some extent by LTL's presence in the value-added segment, which supports 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 remains 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 its steady earnings from operations, cash and liquid investments held and adequate unutilised lines of credit. Availability of free cash buffer, including cash reserves and liquid investments stood at around Rs. 31.6 crore as on September 30, 2024. Further, LTL's working capital limits of Rs. 15 crore remained unutilised as on December 31, 2024 and the average utilisation of its fund-based limits over the past 12 months ending in December 2024 stood minimal at 11.1%. LTL has debt repayment obligations of ~Rs. 13.1 crore in FY2025 and its cash flows are likely to remain comfortable with healthy fund flow from operations.

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 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 profit deteriorating to more than 2.5 times, on a sustained basis.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Textiles - 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 generation capacity of 9.05 MW and owns a commercial complex in Coimbatore with a built-up area of 28,000 sq. ft.

Key financial indicators (audited)

LTL (Standalone)	FY2023	FY2024	H1FY2025*
Operating income	211.4	194.7	116.5
PAT	17.3	4.6	5.1
OPBDIT/OI	15.0%	8.7%	11.0%
PAT/OI	8.2%	2.4%	4.4%
Total outside liabilities/Tangible net worth (times)	0.8	0.8	0.8
Total debt/OPBDIT (times)	1.8	3.3	2.1
Interest coverage (times)	8.8	5.3	3.6

Source: Company, ICRA Research; * provisional; All ratios as per ICRA's calculations; Amount in Rs. crore
PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current rating (FY2025)			Chronology of rating history for the past 3 years						
Instrument	Type	FY2025	FY2024		FY2023		FY2022		
		Amount rated (Rs. crore)	31-Jan-25	Date	Rating	Date	Rating	Date	Rating
Fund based - Term loans	Long term	50.01	[ICRA]A-(Stable)	07-Dec-23	[ICRA]A-(Stable)	01-Mar-23	[ICRA]A-(Stable)	01-Feb-22	[ICRA]BBB+(Positive)
						07-Dec-22	[ICRA]A-(Stable)	12-Jul-21	[ICRA]BBB+(Stable)
Fund based - Working capital facilities	Long term	15.00	[ICRA]A-(Stable)	07-Dec-23	[ICRA]A-(Stable)	01-Mar-23	[ICRA]A-(Stable)	01-Feb-22	[ICRA]BBB+(Positive)
						07-Dec-22	[ICRA]A-(Stable)	12-Jul-21	[ICRA]BBB+(Stable)
Non-fund based	Short term	1.13	[ICRA]A2+	07-Dec-23	[ICRA]A2+	01-Mar-23	[ICRA]A2+	01-Feb-22	[ICRA]A2
						07-Dec-22	[ICRA]A2+	12-Jul-21	[ICRA]A2
Unallocated	Short term	2.09	[ICRA]A2+	07-Dec-23	[ICRA]A2+	01-Mar-23	[ICRA]A2+	01-Feb-22	[ICRA]A2
						07-Dec-22	[ICRA]A2+	12-Jul-21	[ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity indicator
Long term – Fund based - Term loans	Simple
Long term – Fund based - Working capital facilities	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-FY2025	-	FY2025-FY2030	50.01	[ICRA]A- (Stable)
NA	Cash Credit	-	-	-	15.00	[ICRA]A- (Stable)
NA	Non-fund-based facility	-	-	-	1.13	[ICRA]A2+
NA	Unallocated	-	-	-	2.09	[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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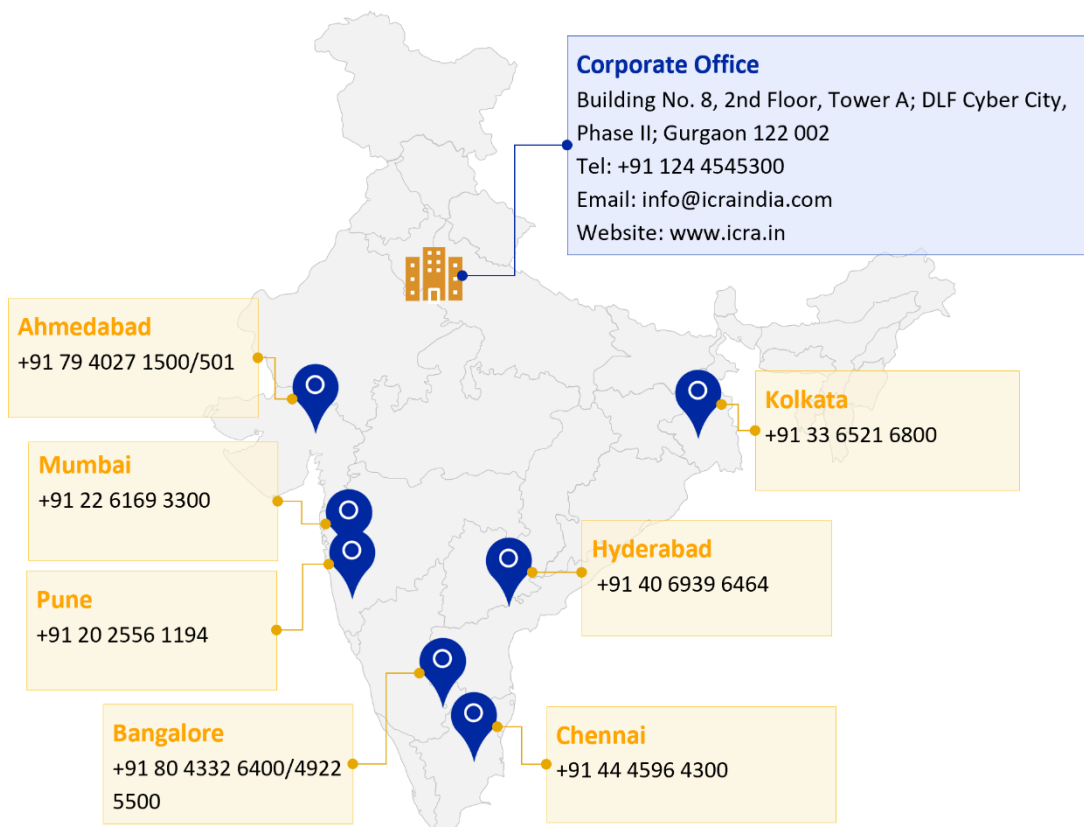
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