July 12, 2021

Lambodhara Textiles Limited: Ratings upgraded to [ICRA]BBB+(Stable)/[ICRA]A2

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Term Loan	34.37	36.43	[ICRA]BBB+(Stable); upgraded from [ICRA]BBB(Stable)
Long-term Fund-based Working Capital facilities	25.00	15.00	[ICRA]BBB+(Stable); upgraded from [ICRA]BBB(Stable)
Short-term Non-fund based	1.13	1.13	[ICRA]A2; upgraded from [ICRA]A3+
Short-term Unallocated	2.98	1.41	[ICRA]A2; upgraded from [ICRA]A3+
Total	**63.48**	**53.97**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings upgrade reflect the healthy performance of Lambodhara Textiles Limited (LTL) in recent quarters and its expected steady operational and financial performance over the medium term. The rating also derives support from LTL's comfortable financial profile, characterised by conservative capital structure with adequate coverage metrics and its strong liquidity position. Post the pandemic-induced business disruptions in H1FY2021, LTL's revenues and earnings have improved from Q3FY2021, driven by better demand conditions, resulting in steady volumes and healthy expansion in contribution margins. LTL's revenues registered a ~30% decline in FY2021, as against the sharp YoY decline of around 60% seen in the first half of the fiscal. With the demand scenario expected to remain favourable, LTL's revenues are expected to register growth upwards of 10% per annum over the medium term. Robust growth in yarn realisations and favourable operating costs had supported operating margins improvement to around 19% in FY2021. With the increase in operating costs and some pressure on yarn prices expected in the current fiscal, LTL's operating margins are likely to moderate from the high levels seen in FY2021 but are expected to remain better than the levels seen during the preceding fiscals. The steady growth in earnings have also reduced LTL's debt levels, with fund flow from operations used to meet scheduled repayment of term loans and meeting working capital requirements. With limited funding requirements and stable earnings, key credit metrics including total debt to operating profits and interest coverage are likely to remain at comfortable levels of around 1.8 and 11 times, respectively, in FY2022. Adjusted for the free cash reserves held, leverage indicators including net gearing and net debt to operating profits are expected to further improve to 0.2 times and 0.8 times respectively in the current fiscal. The ratings consider LTL's established market position in the industry, backed by the promoter's extensive experience and its diversified product portfolio with a considerable share of revenues generated from the value-added segment. The ratings also factor in LTL's moderate scale of operations, susceptibility of the company's earnings to fluctuations in raw material prices and exchange rates and moderate customer concentration risks.

The Stable outlook on the rating reflects ICRA's opinion that LTL's operational and financial performances will continue to benefit from its established market position and the long relationship enjoyed with its customer base, which ensures repeat orders and comfortable capitalisation levels.

Key rating drivers and their description

Credit strengths

Diversified product portfolio – LTL enjoys an established market position in the synthetic yarn segment, with a diversified product base across fibers and blends and count ranges, which limit the impact of demand risks in any one product segment on the overall performance of the company. 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. In addition, 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 supporting its order flows.

Comfortable financial profile – LTL's financial profile continues to be comfortable, characterised by 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 net debt to operating profits and debt service coverage ratios improving to 0.9 and 2.6 times respectively in FY2021. Going forward, despite the likely moderation in margins from the highs of FY2021, LTL's credit profile is expected to remain comfortable on the back of limited funding requirements, relatively stable earnings and adequate cash reserves held.

Credit challenges

Moderate scale of operations and concentration risks –The company's scale of operations remains moderate, with the operating income of Rs. 117.2 crore in FY2021. Revenues from yarn manufactured and sold (excluding the traded goods) has usually ranged between Rs. 110 and Rs. 150 crore over the last five years, limited primarily by capacity constraints, which limits economies of scale to an extent in a capital intensive sector. Revenues are also exposed to asset concentration and customer concentration risks, though the operating income generated from the top-ten customers has reduced steadily over the years. These risks are buffered by LTL's presence in value added segment, which has supported its profitability and established relationship with its key customers lending some stability to volumes.

Earnings exposed to fluctuations in raw material prices and exchange rates – The operating profitability of LTL is exposed to volatility in key raw material prices including polyester and viscose, as it has relatively limited pricing flexibility in a fragmented industry. Earnings have been protected to an extent supported by LTL's presence across a diversified product base and in niche segments. Further, the company's profitability is also 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 its exports.

Liquidity position: Strong

LTL's liquidity position is expected to remain comfortable, supported by steady earnings from operations, cash and liquid investments holdings and adequate unutilised lines of credit. Availability of free cash buffer, including cash reserves, liquid investments and working capital limits together stood at around Rs. 35 crores as on March 31, 2021. Average utilisation of its fund-based limits over the last 12 months period ending March 2021 was low at around 8%. Further, LTL's funding requirements towards debt repayment obligations is estimated to be at ~ Rs. 9 crore, in the current fiscal, as against which the accruals from its operations is likely to be at around Rs. 15 crore for the period.

Rating sensitivities

Positive factors – Ratings may be upgraded if the company registers a sustained strong growth in revenues, while maintaining its healthy profitability and capital structure.

Negative factors – Negative pressure on LTL's rating could arise if there is a sustained pressure on its operating performance or upon any elongation of its working capital cycle, which would adversely impact its credit metrics and liquidity position. Specific metrics that may lead to a downgrade include Total Debt/OPBIDTA increasing to more than 2.3 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 rating is based on the standalone financial statements of the rated entity.

About the company

LTL, incorporated in 1994 at Coimbatore, is involved in manufacturing and selling of 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 manufactures value-added synthetic yarns such as neppy yarn, slub yarn, multi-twist yarn and siro yarn among others. The company produces customised yarns for its customers using various fibres and numerous blends based on the requirements. LTL has installed three wind mills and a solar power plant with a total power generation capacity of 6.05 MW and also owns a commercial complex in Coimbatore with a built-up area of 28,000 sq. feet.

Key financial indicators (Audited)

LTL	FY2020	FY2021
Operating Income (Rs. crore)	173.2	117.2
PAT (Rs. crore)	6.9	10.6
OPBDIT/OI (%)	10.6%	18.9%
PAT/OI (%)	4.0%	9.0%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	0.9
Total Debt/OPBDIT (times)	2.5	1.9
Net Debt/OPBDIT (times)	1.9	0.9
Interest Coverage (times)	6.5	11.8

Source: Company; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Net Debt: Debt adjusted for free cash reserves

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					July 12, 2021	April 08, 2020	July 04, 2019	May 03, 2018
1	Fund based – Term Loan	Long-term	36.43	36.43	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Fund based – Working Capital facilities	Long-term	15.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	Non-fund based	Short-term	1.13	-	[ICRA]A2	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+
4	Unallocated	Short-term	1.41	-	[ICRA]A2	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+

Source: Company; Amount in Rs. crore

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term Fund-based – Term Loan	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 analyzing 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: 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 Loans	FY2017	NA	FY2027	36.43	[ICRA]BBB+(Stable)
NA	Working Capital facilities	NA	NA	NA	15.00	[ICRA]BBB+(Stable)
NA	Non-fund based	NA	NA	NA	1.13	[ICRA]A2
NA	Unallocated	NA	NA	NA	1.41	[ICRA]A2

Source: *Company*

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

ANALYST CONTACTS

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

Pavethra Ponniah
+91 44 4596 4314
pavethrap@icraindia.com

Balaji M
+91 44 4596 4317
balaji.m@icraindia.com

Asfar Mohamed
+91 44 4297 4313
asfar.mohamed@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

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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

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