

February 01, 2022

## Lambodhara Textiles Limited: Ratings reaffirmed; Outlook revised to Positive

### 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                             | 36.43                            | [ICRA]BBB+; reaffirmed and Outlook revised to Positive from Stable |
| Long-term Fund-based Working Capital Facilities | 15.00                             | 15.00                            | [ICRA]BBB+; reaffirmed and Outlook revised to Positive from Stable |
| Short-term Non-fund Based Facilities            | 1.13                              | 1.13                             | [ICRA]A2; reaffirmed                                               |
| Short-term Unallocated Limits                   | 1.41                              | 1.41                             | [ICRA]A2; reaffirmed                                               |
| <b>Total</b>                                    | <b>53.97</b>                      | <b>53.97</b>                     |                                                                    |

\*Instrument details are provided in Annexure-1

### Rationale

The revision in outlook to positive reflects Lambodhara Textiles Limited's (LTL) better-than-expected operational and financial performance in FY2022 with steady revenues and earnings in the coming quarters, driven by its established market position in the synthetic yarn industry and favourable demand conditions seen in the recent quarters. The ratings continue to drive comfort from LTL's comfortable financial profile, characterised by a conservative capital structure with adequate coverage metrics and a strong liquidity position. LTL's revenues and operating profits have witnessed a steady growth since Q3 FY2021, on the back of better volumes and prices, with the same also supporting improvement in its return indicators and debt protection metrics. LTL's revenues are expected to post a strong growth of more than 50% in FY2022 (albeit on a small base), and at around 6% in FY2023 supported by the proposed capacity expansion likely to be commissioned by Q4 FY2023. Favourable yarn realisations have supported LTL's operating margins to remain healthy at ~17% in FY2022, and is expected to remain at more than 15% over the medium term backed by its focus on value-added yarn. With limited funding requirements and stable earnings, ICRA expects LTL's key credit metrics including total debt to operating profits and debt service coverage ratios to remain at comfortable levels of around 1 times and 3 times, respectively, in FY2022 and FY2023. The ratings also factor in LTL's moderate scale of operations, susceptibility of its earnings to fluctuations in raw material prices and exchange rates and moderate customer concentration risks.

### 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, blends and count ranges, which limit the impact of demand risks on 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, thus supporting its order flows.

**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 1.3 times in H1 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.

## Credit challenges

**Moderate scale of operations and concentration risks** – LTL's scale of operations remains moderate, with the expected operating income (OI) of less than Rs. 200 crore in FY2022. Revenue from yarn manufactured and sold (excluding the traded goods) has been limited primarily by capacity constraints, which limits economies of scale to an extent in a capital-intensive sector. However, the proposed addition of capacity in FY2023 is expected to aid LTL's revenue growth over the medium term. Revenues are also exposed to asset concentration and customer concentration risks, though the OI generated from the top ten customers reduced steadily over the years. These risks are buffered by LTL's presence in the value-added segment, which supported its profitability and established relationship with its suppliers and key customers, lending 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. Earnings have been protected to an extent supported by the company's presence across a diversified product base and in niche segments. Further, its 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 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. 40 crore as on September 30, 2021. Average utilisation of its fund-based limits over the last eight months ending October 2021, was low at less than 10%. Further, LTL's funding requirement towards debt repayment obligations and capital expenditure (capex) is estimated to be at ~ Rs. 25 crore in FY2022 and FY2023, against which the accruals from its operations is likely to be at around Rs. 45 crore for the period.

## Rating sensitivities

**Positive factors** – Ratings may be upgraded if the company registers a healthy growth in revenues and earnings, while maintaining its profitability levels and comfortable debt protection metrics and liquidity position.

**Negative factors** – Pressure on LTL's rating 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 2.0 times on a sustained basis.

## Analytical approach

| Analytical Approach             | Comments                                                                                                                                  |
|---------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------|
| Applicable Rating Methodologies | <a href="#">Corporate Credit Rating Methodology</a><br><a href="#">Rating Methodology for Entities in the Textiles Industry -Spinning</a> |
| 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, 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 wind mills 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 (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 |
|   |                            |                         |                          |                                                     | Feb 01, 2022          | July 12, 2021                                     |                         |                         |                         |
| 1 | Term Loans                 | Long-term               | 36.43                    | 36.43                                               | [ICRA]BBB+ (Positive) | [ICRA]BBB+ (Stable)                               | [ICRA]BBB (Stable)      | [ICRA]BBB (Stable)      | [ICRA]BBB (Stable)      |
| 2 | Working Capital facilities | Long-term               | 15.00                    | -                                                   | [ICRA]BBB+ (Positive) | [ICRA]BBB+ (Stable)                               | [ICRA]BBB (Stable)      | [ICRA]BBB (Stable)      | [ICRA]BBB (Stable)      |
| 3 | Non-fund based facilities  | Short-term              | 1.13                     | -                                                   | [ICRA]A2              | [ICRA]A2                                          | [ICRA]A3+               | [ICRA]A3+               | [ICRA]A3+               |
| 4 | Unallocated limits         | Short-term              | 1.41                     | -                                                   | [ICRA]A2              | [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 Loans                 | Simple               |
| Long-term Fund Based – Working Capital facilities | Simple               |
| Short-term – Non-fund Based facilities            | Very Simple          |
| Short-term – Unallocated limits                   | 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](http://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+(Positive)       |
| NA      | Working Capital facilities | NA                          | NA          | NA            | 15.00                    | [ICRA]BBB+(Positive)       |
| NA      | Non-fund based facilities  | NA                          | NA          | NA            | 1.13                     | [ICRA]A2                   |
| NA      | Unallocated limits         | NA                          | NA          | NA            | 1.41                     | [ICRA]A2                   |

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

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