July 04, 2019

Lambodhara Textiles Limited: Ratings reaffirmed at [ICRA]BBB/A3+

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based – Working capital facilities	23.50	23.50	[ICRA]BBB (Stable); reaffirmed
Fund based – Term Loans	31.80	32.08	[ICRA]BBB (Stable); reaffirmed
Non fund-based facilities	1.50	1.50	[ICRA]A3+; reaffirmed
Unallocated limits	6.68	6.40	[ICRA]A3+; reaffirmed
Total	**63.48**	**63.48**	

Rationale

The ratings favourably factors in the extensive experience of the promoters in the textile industry and the company's long relationship with its customers, resulting in healthy order inflows. The ratings also consider the company's presence in value-added fancy yarns segment and diversified product portfolio which lends stability to the revenues and healthy realizations. The ratings further consider the company's expected strong growth over the next two years on account of increase in the company's production capacity (through own and leased units). The ratings continue to take comfort from the company's moderate coverage indicators and debt protection metrics, windmill income and leasing of commercial complex that augments the operating income.

The ratings are, however, constrained by declining trend in operating profitability over the last three years to 9.82% in FY2019 from 14.99% in FY2016 owing to volatility in raw material prices and increase in selling expenses. The ratings also continue to factor in LTL's modest scale of operations in the textiles–synthetic yarn segment and susceptibility of its earnings to fluctuations in raw material prices. The company has benefitted considerably from lower interest cost of foreign currency borrowings, however, significant appreciation of Euro against INR, going forward, may lead to higher than anticipated borrowing cost. ICRA also notes the company's high repayment obligations (of EURO denominated loans) over the next two years. The ratings further consider the high customer concentration risks; however, the company's established relationship with its customers mitigates the risks to an extent.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that LTL will continue to benefit from the experience of promoters, its presence in the value-added yarn, and continued improvement in scale of operations on account of increased capacity. The outlook may be revised to 'Positive' if higher-than-expected increase in revenues and profitability, strengthens the financial risk profile. The outlook may be revised to 'Negative' if cash accruals are lower than expected or if higher-than-expected capital expenditure, or stretch in the working-capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Long experience of the promoters in the textile industry - Extensive experience of the promoters in the textile industry of more than two decades aids in retaining existing customers and adding new customers. The company has been enjoying steady orders in the domestic and export market driven by the established relationship with its client base.

Diversified product portfolio - The company is primarily involved in manufacturing synthetic yarns and its blends in the relatively coarser count range of 30s to 60s, which find application in woven, hosiery segments for garmenting and home textiles. The value-added nature of the yarns has resulted in higher realisations supporting the company's growth over the years. Further, with major portion of products being made to order, the company is able to maintain a healthy order book position in the range of 30- 45 days which lends stability to volumes to a large extent.

Comfortable financial risk profile; healthy revenue growth– The company expanded its own capacity by 4320 spindles in Q4 FY2019 and has been expanding its leased capacity (27,872 spindles as on March 31, 2019), which is expected to drive its revenue growth over the next two years. The company's capital structure remains moderate with its coverage indicators are comfortable as indicated by interest coverage of 7.57 times and NCA/TD of 26% in FY2019.

Revenues from letting out of commercial complex augments the operating cash flow - The company has commercial complex with a built-up area of 28,000 square feet in Coimbatore, currently operating at full occupancy, which aids in a stable stream of revenues augmenting the operating cash flow. The company's profitability is also augmented by the two wind mill units with a generation capacity of 2.75MW.

Credit challenges

Modest scale of operations - The company's scale of operations remains modest in an intensely competitive industry with an operating income of Rs.174.96 crore in FY2019, limiting its financial flexibility. With a total spindle capacity of ~70,000 (including leased capacity), the scale of the operation remains relatively modest.

Decline in profitability in the last three years – The company's operating margins have been on a declining trend over the last three years and further decreased to 9.82% in FY2019 owing to volatility in raw material prices and increase in selling expenses. Any further decline in profitability could impact the company's accruals and liquidity position given the significant repayment obligations over the medium term.

Limited pricing flexibility, with profits exposed to volatility in yarn prices and forex - Any adverse movement in the price of raw materials could have an adverse impact on the company's margins. Nonetheless, major portion of the company's revenues are from value added yarns which offer higher pricing flexibility relative to players operating in the commoditised markets. While, the company has benefitted considerably from lower interest cost of foreign currency borrowings, any significant appreciation of Euro against INR, going forward, may lead to higher than anticipated borrowing cost. To an extent, foreign currency loans also acts as a natural hedge to the export receivables.

High customer concentration - The ratings further consider the high geographic and customer concentration risks of the company. However, the company's established relationship with its customers and an average order book position of 30-45 days mitigates the risks to an extent.

Liquidity Position

The company has adequate working capital buffer as reflected by low average working capital limit utilization of 45% during the last twelve months. Despite significant repayment obligations, the company is expected to maintain its credit metrics and liquidity is expected to remain comfortable owing to healthy accruals

Analytical Approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Indian Textiles Industry – Spinning
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on standalone financial profile of the company

About the company:

Lambodhara Textiles Limited, incorporated in 1994 at Coimbatore, is engaged in manufacturing and selling of synthetic yarn. The Company manufactures 100% synthetic yarns like PSF yarn, VSF yarn and blended yarns like PV yarn and PC yarns in the count range of 30s to 60s. The company also manufactures value added synthetic yarns like neppy yarn, slub yarn, multi twist yarn, siro yarn and other fancy yarns. The company produces customized yarns using various fibers (including Modal, Flax, Tencel and Excel), numerous blends and numerous effects based on the requirements. The Company has a total installed capacity of 42,176 spindles. The company has also installed two wind mills with a generation capacity of 2.75MW which caters to around 25% of its power requirements. The company also has a commercial complex with a built-up area of 28,000 sq. feet in Coimbatore.

Key financial indicators

	FY 2018	FY2019
Operating Income (Rs. Crore)	166.83	174.96
PAT (Rs. Crore)	5.96	7.58
OPBDIT/ OI (%)	12.29%	9.82%
RoCE (%)	16.50%	12.45%
Total Debt/ TNW (times)	1.04	0.95
Total Debt/ OPBDIT (times)	2.15	2.71
Interest coverage (times)	3.09	7.57

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2020 July 2019	Date & Rating in FY2019 May 2018	Date & Rating in FY2018 July 2017	Date & Rating in FY2017 May 2016
1	Fund-based -Working capital facilities	Long Term	23.50	NA	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)
2	Term Loans	Long Term	32.08	**32.08**	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)
3	Non Fund-based	Short Term	1.50	**NA**	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3
4	Unallocated Limits	Short Term	6.40	**NA**	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the 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	Fund-based -Working capital facilities	NA	NA	NA	23.50	[ICRA]BBB (Stable)
NA	Term Loans	FY2014	NA	FY2027	32.08	[ICRA]BBB (Stable)
NA	Non Fund-based	NA	NA	NA	1.50	[ICRA]A3+
NA	Unallocated Limits	NA	NA	NA	6.40	[ICRA]A3+

Source: Lambodhara Textiles Limited

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About ICRA Limited:

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