

April 02, 2020

Lambodhara Textiles Limited: Ratings reaffirmed at [ICRA]BBB(Stable)/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	25.00	[ICRA]BBB (Stable); reaffirmed
Fund based – Term Loans	32.08	34.37	[ICRA]BBB (Stable); reaffirmed
Non fund-based facilities	1.50	1.13	[ICRA]A3+; reaffirmed
Unallocated limits	6.40	2.98	[ICRA]A3+; reaffirmed
Total	63.48	63.48	

*Instrument details are provided in Annexure-1

Rationale

The ratings favourably factors in the extensive track record of Lambodhara Textiles Limited (LTL) 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 growth in company's sales volume during 9M FY2020 on account of increase in the company's production capacity (through own and leased units) and expected growth given the proposed expansion of capacity in the medium term. The ratings continue to take comfort from the company's strong financial risk profile characterized by healthy coverage indicators, and improved operating profitability in 9M FY2020 owing to decrease in raw material prices during the period. ICRA also considers windmill income and leasing of commercial complex that augments the operating income.

The ratings are, however, constrained by LTL's moderate 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, the company is exposed to fluctuations in foreign exchange rates, which is mitigated to an extent by natural hedge from export receivables. The ratings further consider the high customer concentration risks; however, the company's established relationship with its customers mitigates the risks to an extent. ICRA also notes the industry's exposure to risks of demand slowdown and disruptions in the operations owing to the lockdown imposed to contain the spread of novel Coronavirus (COVID-19). The extent of its impact on the demand and disruptions caused to the company's operations is a key rating monitorable in the near term.

The Stable outlook reflects ICRA's opinion that LTL will continue to benefit from its long-standing experience, its presence in the value-added yarn, and continued improvement in scale of operations on account of capacity additions.

Key rating drivers and their description

Credit strengths

Significant experience of the company in the textile industry - Extensive experience of the company 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 medium 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 a 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.

Healthy volume growth in 9M FY2020 - The company expanded its own capacity by 4320 spindles and its leased capacity to 27,872 spindles in FY2019, driving volume growth of ~8% in 9M FY2020. However, decline in realisations during the period impacted the revenues to an extent. The company proposes to further enhance its own and leased capacities in the medium term, which could result in sustained growth in its volumes over the next two years.

Strong financial risk profile – LTL's financial profile continued to remain strong witnessing an improvement in operating profitability to 11% in 9M FY2020 from 9.82% in FY2019 owing to decrease in raw material prices. The company's capital structure remains moderate with its coverage indicators remaining comfortable as indicated by interest coverage of 6 times and NCA/TD of 43% in 9M FY2020. Further, improved working capital cycle during the period resulted in unencumbered cash balances of Rs. 10.28 crore as on December 31, 2019.

Revenues from letting out of commercial complex augments the operating cash flow - The company has a 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. Further, an additional 2MW capacity was commissioned in Q4 FY2020 at a total cost of Rs. 14.35 crore which is likely to reduce the company's power costs in the near term and support its operating margins.

Credit challenges

Moderate scale of operations - The company's scale of operations remains moderate in an intensely competitive industry with an operating income of Rs.174.96 crore in FY2019 and Rs. 133.82 crore in 9M FY2020, limiting its financial flexibility. With a total spindle capacity of ~70,000 (including leased capacity), the scale of the operation remains relatively moderate.

Limited pricing flexibility, with profits exposed to volatility in yarn prices and forex – The company's profitability is exposed to adverse movement in the price of raw materials as witnessed in the past. 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. This risk is mitigated to an extent by natural hedge from export receivables.

High customer concentration - The ratings further consider the high 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.

Exposed to probable risks of demand slowdown - The industry is exposed to probable risks of demand slowdown owing to the outbreak of COVID-19 and the lockdown imposed by the government. The extent to which the lockdown will impact the demand scenario for LTL's products and the level of disruption to the company's operations will be the key rating sensitivity in the near term.

Liquidity Position: Adequate

The company's liquidity position is adequate with ~Rs. 15-20 crore buffer provided by unutilised working capital limits and healthy unencumbered cash balance of Rs. 10.28 crore as on December 31, 2019. The company incurred Rs. 14.35 crore capital expenditure in Q4 FY2020 and plans to incur capex of Rs. 5-10 crore in FY2021. Despite repayment obligations of Rs. 8.04 crore in FY2021, the liquidity is expected to be supported by healthy retained cash flows of Rs. 15.0-20.0 crore.

Rating sensitivities

Positive triggers: ICRA could upgrade LTL's rating if the company can sustain its sales volumes while maintaining its margins and working capital cycle, despite the adverse demand scenario owing to the outbreak of COVID-19.

Negative triggers: Negative pressure on LTL's rating could arise if decline in revenues or profitability results in significant decline in cash accruals or stretch in the working-capital cycle, weakens liquidity. Specific credit metrics that could lead to a revision of LTL's rating include (1) OPBDITA/Interest less than 3.2 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 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 and leased capacity of 27,872 spindles. The company has also installed three wind mills with a generation capacity of 4.75MW and a commercial complex with a built-up area of 28,000 sq. feet in Coimbatore.

Key financial indicators

	FY2018	FY2019	9M FY2020*
Operating Income (Rs. Crore)	166.83	174.96	133.82
PAT (Rs. Crore)	5.96	7.58	6.29
OPBDIT/ OI (%)	12.29%	9.82%	11.00%
RoCE (%)	16.50%	12.45%	13.77%
Total Outside Liabilities/Tangible Net Worth (times)	1.52	1.34	0.95
Total Debt/ OPBDIT (times)	2.15	2.71	1.77
Interest Coverage (times)	3.09	7.57	6.00
DSCR	1.61	1.84	1.48

*Unaudited financials

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2021)		Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
				07-Apr-2020	04-Jul-2019	03-May-2018	27-Jul-2017
1	Fund-based - Working capital facilities	25.00	NA	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Term Loans	34.37	34.37	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	Non Fund-based	1.13	NA	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+
4	Unallocated Limits	2.98	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	25.00	[ICRA]BBB (Stable)
NA	Term Loans	FY2014	NA	FY2027	34.37	[ICRA]BBB (Stable)
NA	Non Fund-based	NA	NA	NA	1.13	[ICRA]A3+
NA	Unallocated Limits	NA	NA	NA	2.98	[ICRA]A3+

Source: Lambodhara Textiles Limited

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About ICRA Limited:

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