

Loyal Textile Mills Limited

August 16, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long-term Bank Facilities	4.00	CARE A-; Stable (Single A Minus; Outlook: Stable)	Assigned
Long-term Bank Facilities	40.74	CARE A-; Stable (Single A Minus; Outlook: Stable)	Revised from CARE BBB+; Negative (Triple B Plus; Outlook: Negative)
Short-term Bank Facilities	444.00	CARE A2 (A Two)	Revised from CARE A3+ (A Three Plus)
Total Bank Facilities	488.74 (Rs. Four hundred eighty-eight crore and seventy-four lakhs only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Loyal Textile Mills Limited (LTM) factors

In the sharp turnaround in outlook for the textile industry post the first wave of the pandemic where in increased demand for cotton textiles has augured well for players like LTM. In view of the improved operating environment, LTM has been reporting healthy profits in recent quarters and is expected to remain so in the near terms. The profits have been used towards debt reduction, with prepayment of debt as well. With no debt funded capital expenditure plans in the near horizon, the company is expected to be term debt free and resultant coverage indicators are expected to remain better.

The ratings continue to derive strength from the long track record of LTM spanning more than seven decades, vertically integrated nature of operations, benefits derived from diverse and niche offerings within each product category and a widespread clientele. The ratings, however, continue to be constrained by LTM's moderate capital structure albeit improved during FY21 (refers to the period April 1 to March 31), working capital intensive nature of operations, susceptibility of profit margins to the volatile raw material prices and cyclical nature of the textile industry

Rating Sensitivities:

Positive factors

- Improvement in the scale of operations and profitability with PBILDT margins at more than 12% on a sustained basis.
- Ability to reduce debt levels and thereby improve capital structure with overall gearing of below unity

Negative factors

- Any large debt funded capital expenditure leading to moderation in capital structure and stretched liquidity.

Detailed description of the key rating drivers

Key Rating Strengths

Highly experienced management team: Mr. A. Velliangiri, Chief Executive Officer has over four decades of experience in Finance, Accounts, Costing, Commercial functions and overall management in various large Industrial Organizations including Tamilnadu Newsprint and Papers Limited (TNPL) (rated 'CARE A; Stable/ CARE A1'). He is aided by a well experienced management team. Most of the senior management of LTM has vast experience in the industry and have been associated with LTM for more than 20 years.

Long operational track record of LTM with vertically integrated textile mills: LTM is one the oldest mills in South India having more than seven decades of track record with an established presence both in international and domestic markets. LTM has three ginning factories with a capacity to produce 60,000 kgs of cotton, four spinning mills having a combined capacity to produce 85,000 kgs of yarn which are in turn integrated with weaving, knitting, processing and garmenting units thereby contributing to efficiencies of scale in production.

Diverse product range and Geographically diversified customer base: Company's spinning division produces various types of yarns like organic yarn (100% cotton), Blended yarn (Polyester), Linen, Vortex Yarn- made of 100% polyester or viscose cotton yarn of varying counts catering to the specific need of clients using the latest available technology. The Loyal group has established a significant brand image in the textile export market, enabling export of its own products and trading of yarn under the 'Loyal' brand. LTM generates approximately 80-85% of its sales from exports markets, well spread over various countries in USA, Europe, Middle East and Asia. LTM has well diversified client base across various geographies and top 10 clients' account for 43% of its total sales in FY21 (42% in FY20).

Robust operational performance backed by improved realisations resulting in better operating margins

The scale of operations stood relatively stable in FY21 for LTM despite lower production and subdued demand in Q1FY21 following covid-19 induced lockdown. Post the easing of covid-19 restrictions demand for yarn and fabrics picked up and capacity utilisation was comfortable at 65%-80% for all products during FY21. The realisations for yarn and garments picked up for later part of FY21 which enabled the company to register stable top line figures despite the covid-19 impact. The PBILDT margin of LTM improved from 7.89% in FY20 to 9.82% in FY21 and further improved to 11.57% in Q1FY22.

Benefits derived from captive source of power: LTM has made significant investments in windmills, largely debt funded, to meet its power requirement. As on March 2021, LTM has installed windmill capacity of 46MW and solar power capacity of 3.3MW. LTM draws around 55% of its power requirement from captive capacity.

Key Rating Weaknesses

Moderate capital structure and debt coverage metrics

The company had consistently reduced the term loan obligations over the last few years with no major debt funded capital expenditure. As a result, the overall gearing improved, however stood moderate at 1.52x as on March 31, 2021 as against 1.81x as on March 31, 2020. The debt coverage indicators also stood moderate albeit improved with Total debt/GCA of 5.66 as on March 31, 2021 as against 7.61 as on March 31, 2020.

Inherent volatility associated with raw material prices and its impact on profitability

Cotton, the key raw material, has exhibited high volatility in prices in the past and in turn impacts the profitability of the company. The prices of cotton and yarn are governed by various factors such as area under cultivation, monsoon, export quota by Government, international demand-supply situation, etc. The prices of cotton yarn (40s combed spun yarn) hovered in the range of Rs.212 per kg to Rs.218 per kg during the period April-October 2020 which improved to Rs.220 per kg in November 2020 and continued to increase by 3%-4.5% on m-o-m basis during December 2020 – March 2021.

Liquidity: Adequate

Adequate liquidity characterized by sufficient cushion in accruals vis-à-vis repayment obligations and moderate cash balance of Rs.3.87 Crore (PY: Rs.1.52 crore) as on March 31, 2021. The company maintain raw material inventory of around 90 to 120 days and finished goods for less than 25 days. It generally, gets credit period of around 30 days. Credit period given by LTM varies up to 60 days. Most of the export credits are backed by LCs hence the risk on receivables remains low. With respect to sales in the domestic market, LTM does on cash basis. The average working capital utilisation stood high at 96.41% for the 12 months ended May 2021. The current ratio stood high at 0.88 as on March 31, 2021.

Industry Outlook

The RMG or apparel exports on a cumulative basis declined by 21.1% y-o-y to USD 12.2 billion during FY21 due to Covid-19 pandemic disruptions. The fall in RMG outbound shipments was seen across all the markets with exports to the top 2 markets (Europe and the USA) decreasing by about 23% each to USD 3.7 billion and USD 3.3 billion, respectively. On RMG export front, India continues to face tough competition from Bangladesh due to favourable trade agreements. On the domestic market front, RMG sales are expected to be improve as Covid-19 cases continue to recede with easing of restrictions and ongoing vaccination program. It is to be noted that RMG firms have started manufacturing protective wears to cater to the requirements of the market. In the medium to long term, some demand from the US and the EU markets is expected to shift (though gradually) from China to other major garment manufacturers viz. Vietnam, Bangladesh, India and Cambodia, as the customers are likely to decrease their dependence on China

Analytical approach: Standalone

Applicable Criteria:

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Methodology for Cotton Textile Manufacturing](#)

[CARE's Policy on Default Recognition](#)

Financial Ratios- Non-Financial Sector
 Liquidity Analysis of Non-Financial Sector Entities
 Criteria for Short term Instruments

About the Company

Loyal Textiles Mills Ltd (LTM) is one of the oldest integrated textile mills in south India, with facilities for the production of cotton yarn, knitted & woven fabrics and garments. LTM is the flagship company of the Loyal group, founded by Late Mr. Karumuttu Thiagaraja Chettiar in the year 1956. LTM's manufacturing facilities are spread over five locations with an aggregate capacity of 1,35,456 ring spindles, 5,024 rotors, 265 knitting machines, 428 automatic looms, 2,031 sewing machines.

Brief Financials (Rs. crore)	FY20 (A)	FY21(A)
Total operating income	1106.43	1124.2
PBILDT	87.27	110.4
PAT	4.31	27.50
Overall gearing (times)	1.81	1.52
Interest coverage (times)	2.36	3.15

A: Audited

Status of non-cooperation with previous CRA:

Not Applicable

Any other information:

Not Applicable

Rating History for last three years: Please refer Annexure-2

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Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - ST-EPC/PSC	-	-	-	50.00	CARE A2
Fund-based - LT-Term Loan	-	-	March 2022	40.74	CARE A-; Stable
Non-fund-based - ST-BG/LC	-	-	-	68.00	CARE A2
Fund-based - ST-PC/Bill Discounting	-	-	-	205.00	CARE A2
Non-fund-based - ST-Letter of credit	-	-	-	120.00	CARE A2
Non-fund-based - ST-Bank Guarantees	-	-	-	1.00	CARE A2
Fund-based - LT-Cash Credit	-	-	-	4.00	CARE A-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - ST-EPC/PSC	ST	50.00	CARE A2	-	1)CARE A3+ (30-Oct-20)	1)CARE A3+ (11-Feb-20) 2)CARE A3+ (15-Nov-19)	1)CARE A3+ (24-Dec-18)
2.	Fund-based - LT-Cash Credit	LT	-	-	-	-	1)Withdrawn (15-Nov-19)	1)CARE BBB+; Stable (24-Dec-18)
3.	Fund-based - LT-Term Loan	LT	40.74	CARE A-; Stable	-	1)CARE BBB+; Negative (30-Oct-20)	1)CARE BBB+; Negative (11-Feb-20) 2)CARE BBB+; Stable (15-Nov-19)	1)CARE BBB+; Stable (24-Dec-18)
4.	Non-fund-based - ST-BG/LC	ST	68.00	CARE A2	-	1)CARE A3+ (30-Oct-20)	1)CARE A3+ (11-Feb-20) 2)CARE A3+ (15-Nov-19)	1)CARE A3+ (24-Dec-18)
5.	Fund-based - ST-PC/Bill Discounting	ST	205.00	CARE A2	-	1)CARE A3+ (30-Oct-20)	1)CARE A3+ (11-Feb-20) 2)CARE A3+ (15-Nov-19)	1)CARE A3+ (24-Dec-18)
6.	Non-fund-based - ST-Letter of credit	ST	120.00	CARE A2	-	1)CARE A3+ (30-Oct-20)	1)CARE A3+ (11-Feb-20) 2)CARE A3+ (15-Nov-19)	1)CARE A3+ (24-Dec-18)
7.	Non-fund-based - ST-Bank Guarantees	ST	1.00	CARE A2	-	1)CARE A3+ (30-Oct-20)	1)CARE A3+ (11-Feb-20) 2)CARE A3+ (15-Nov-19)	1)CARE A3+ (24-Dec-18)
8.	Fund-based - LT-Cash Credit	LT	4.00	CARE A-; Stable	-	-	-	-

Annexure 3: Detailed explanation of covenants of the rated facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Fund-based - ST-EPC/PSC	Simple
4.	Fund-based - ST-PC/Bill Discounting	Simple
5.	Non-fund-based - ST-Bank Guarantees	Simple
6.	Non-fund-based - ST-BG/LC	Simple
7.	Non-fund-based - ST-Letter of credit	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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