

Loyal Textile Mills Limited (Revised)

August 18, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	4.00	CARE A-; Positive (Single A Minus; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Long-term / Short-term bank facilities	125.00	CARE A-; Positive / CARE A2 (Single A Minus; Outlook: Positive/ A Two)	Assigned
Short-term bank facilities	465.00 (Enhanced from 443.00)	CARE A2 (A Two)	Reaffirmed
Long-term bank facilities	-	-	Withdrawn
Short-term bank facilities	-	-	Withdrawn
Total bank facilities	594.00 (₹ Five hundred ninety-four crore only)		

Details of facilities in Annexure-1.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Loyal Textile Mills Limited (LTM) 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 geographically-widespread clientele. The ratings, however, continue to be constrained by LTM's moderate capital structure, working capital intensive nature of operations marked by high utilisation on working capital debt and moderate current ratio, susceptibility of profit margins to the volatile raw material prices and cyclical nature of the textile industry.

Rating sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in the scale of operations over ₹1,800 crore on a sustained basis.
- Improved capital structure with overall gearing of below 1x.

Negative Factors - Factors that could lead to negative rating action/downgrade:

- Any large debt-funded capital expenditure leading to moderation in capital structure and stretched liquidity.
- Any risk of inability to pass-on the volatility in cotton prices resulting in lower operating margins.

Outlook: Positive

The outlook has been revised from stable to positive, as despite the challenging external environment, the company's capital structure and debt coverage indicators are expected to improve aided by better accruals. Furthermore, with capital expenditure plans being modest, with no long-term debt addition, the company's liquidity ratios are also expected to improve with the accruals being deployed in working capital. The outlook will be revised to stable in case of any reduced accruals following slowdown in export orders and stretched working capital levels.

Detailed description of the key rating drivers

Key rating strengths

Long track record of operations of the company with vertically-integrated textile mills:

LTM founded in the year 1956 by Late Karumuttu Thiagaraja Chettiar, is one of the oldest integrated textile 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 integrated with four spinning mills located in Kovilpatti, Satur, Arasanur and Naidupet having a combined capacity to produce 85,000 kg of yarn. Around 75% of the yarn produced is used for captive purposes and the remaining is exported.

Diversified product profile:

LTM has different product lines including yarn, fabrics (woven and knitted), home textiles and garments. The company produces yarn of various counts from 6s to 120s, however 40s remain major pattern. Yarn includes pure organic yarn (100% cotton), blended yarn made of Polyester, Bamboo, Linen etc. Woven fabrics include Plain, Twill, Drill, Gabardine, Sateen, Satin, Stripe Sateen, Dobby design, Rib stop, Herringbone and Oxford weave in widths ranging from 50 inches to 134 inches with 450

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Air-Jet looms and knitted fabrics include Single jersey, Rib, Inter-lock, Terry, Fleece, Pique, Collar and Cuff 20" to 36" dia with 220 knitting machines. There are also various home textiles and garments being manufactured.

Geographically-diversified customer base:

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 70-80% 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 its top 10 clients accounted for 43.41% of its total sales in FY22 (43.03% in FY21).

Benefits derived from captive source of power:

LTM has made significant investments in windmills, to meet its power requirement. As on March 31, 2022, LTM has an installed windmill capacity of 46MW and solar power capacity of 3.3MW. LTM draws around 40% of its power requirement from captive capacity.

Growth in income and improved profitability during FY22:

The operating income increased by 57.6% from ₹1,121.8 crore in FY21 to ₹1,767.4 crore in FY22 due to better realisations of fabrics and higher export demand. The PBILDT margin also improved from 9.63% in FY21 to 11.04% in FY22 backed by improved realisation and presence of integrated operations. The cash accruals had increased threefold to ₹126.9 crore in FY22 from ₹67.0 crore in FY21. During Q1FY23 (refers to the period April 1 to June 30, 2022) the company reported PAT of ₹20.83 crore on total income of ₹438.9 crore as against ₹14.2 crore and ₹359.81 crore respectively in Q1FY22

Key rating weaknesses**Moderate capital structure and debt coverage metrics:**

The company had closed the entire term loans in FY22. However due to working capital intensive nature of operations, the overall gearing stood moderate at 1.80 as on March 31, 2022 albeit improved from 2.13 as on March 31, 2021. The total debt to GCA stood relatively moderate at 4.78 as on March 31, 2022 (PY: 7.91).

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 s6 cotton had been increasing over the past two years till June 2022 and declined in July 2022 and again started to increase since the beginning of August. The average purchase cost of cotton for LTM increased from ₹130.41 per kg in FY21 to ₹181.70 per kg in FY22 and further increased to ₹224.55 per kg in 2mFY23.

Industry outlook

The textile and apparel sector is facing uncertainty and challenges in demand and operational profitability for the last three months. Capacity utilisation has dropped across the textile value chain, especially for yarn and fabric, since May 2022. As the US economic growth slows down, consumers have turned more cautious about discretionary spending on clothing to prioritise other necessities. It is expected that there will be 3-4 months of demand contraction which will only lead to the stabilisation of prices and then trade will return to routine business with the exhaustion of existing inventories. Textile traders are anticipating fresh export orders, especially for fabrics in the next couple of months. On a long-term basis, Indian cotton spinners are expected to maintain stable demand growth and profitability supported by increasing urbanisation, rising disposable income, China+1 strategy adopted by the major global retail players along with various incentives from government like Remission of Duties and Taxes on Export Products (RoDTEP), Rebate of State and Central Taxes and Levies (RoSCTL) and Production Linked Incentive (PLI) scheme etc.

Liquidity: Adequate

The liquidity of the company is adequate characterised by Nil term loan obligations and moderate cash balance of ₹5.6 crore (PY: ₹3.9 crore) as on March 31, 2022. The company maintains 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. Most of the export credits are backed by letters of credit (LCs) hence the risk on receivables remains low. The average fund-based working capital utilisation stood high at 94.08% for the 12 months ended May 2022. The company utilises LC for import of raw material and the LC limits are almost fully utilised during the past 12 months ended May 2022. The current ratio stood moderate at 1.02 as on March 31, 2022 due to higher working capital borrowings.

Analytical approach:

Standalone

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short-term instruments](#)
[Cotton Textile](#)
[Manufacturing Companies](#)
[Policy on Withdrawal of Ratings](#)

About the Company

LTM is one of the oldest integrated textile mills in south India, with facilities for production of cotton yarn, knitted & woven fabrics and garments. LTM is the flagship company of the Loyal group, founded by Late 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, 4,848 rotors, 265 knitting machines, 428 automatic looms, 2,031 sewing machines. The company also has installed windmills with 46 MW and a solar power plant 3.3 MW for captive consumption as on March 31, 2022.

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	Q1FY23(UA)
Total operating income	1,121.80	1,767.43	438.90
PBILDT	108.03	195.07	45.70
PAT	27.51	91.26	20.83
Overall gearing ratio (times)	2.13	1.80	NA
Interest coverage (times)	1.85	5.33	4.58

A: Audited; UA: Unaudited; NA: Not Available

Status of non-cooperation with previous CRA:

Not applicable

Any other information:

Not applicable

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

Covenants on instruments rated: NA

Complexity level of the instruments rated: Please refer Annexure-3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - ST-EPC/PSC		-	-	-	72.00	CARE A2
Fund-based - LT-Term loan		-	-	-	0.00	Withdrawn
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 guarantee		-	-	-	0.00	Withdrawn
Fund-based - LT-Cash credit		-	-	-	4.00	CARE A-; Positive
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	125.00	CARE A-; Positive / CARE A2

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020

1	Fund-based - ST-EPC/PSC	ST	72.00	CARE A2	-	1)CARE A2 (16-Aug-21)	1)CARE A3+ (30-Oct-20)	1)CARE A3+ (11-Feb-20) 2)CARE A3+ (15-Nov-19)
2	Fund-based - LT-Cash credit	LT	-	-	-	-	-	1)Withdrawn (15-Nov-19)
3	Fund-based - LT-Term loan	LT	-	-	-	1)CARE A-; Stable (16-Aug-21)	1)CARE BBB+; Negative (30-Oct-20)	1)CARE BBB+; Negative (11-Feb-20) 2)CARE BBB+; Stable (15-Nov-19)
4	Non-fund-based - ST-BG/LC	ST	68.00	CARE A2	-	1)CARE A2 (16-Aug-21)	1)CARE A3+ (30-Oct-20)	1)CARE A3+ (11-Feb-20) 2)CARE A3+ (15-Nov-19)
5	Fund-based - ST-PC/Bill discounting	ST	205.00	CARE A2	-	1)CARE A2 (16-Aug-21)	1)CARE A3+ (30-Oct-20)	1)CARE A3+ (11-Feb-20) 2)CARE A3+ (15-Nov-19)
6	Non-fund-based - ST-Letter of credit	ST	120.00	CARE A2	-	1)CARE A2 (16-Aug-21)	1)CARE A3+ (30-Oct-20)	1)CARE A3+ (11-Feb-20) 2)CARE A3+ (15-Nov-19)
7	Non-fund-based - ST-Bank guarantee	ST	-	-	-	1)CARE A2 (16-Aug-21)	1)CARE A3+ (30-Oct-20)	1)CARE A3+ (11-Feb-20) 2)CARE A3+ (15-Nov-19)
8	Fund-based - LT-Cash credit	LT	4.00	CARE A-; Positive	-	1)CARE A-; Stable (16-Aug-21)	-	-
9	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	125.00	CARE A-; Positive / CARE A2				

* Long term/short term

Annexure-3: Complexity level of instruments rated for the company

Sr. No.	Name of 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	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple
6	Non-fund-based - ST-Bank Guarantee	Simple
7	Non-fund-based - ST-BG/LC	Simple

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
8	Non-fund-based - ST-Letter of credit	Simple

Annexure-4: Detailed explanation of covenants of rated facilities: Not applicable

Annexure 5: Bank Lender Details for this Company

To view the lender-wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instruments: CARE Ratings Limited (CARE Ratings) has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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