

## Loyal Textile Mills Limited

August 23, 2023

Facilities/ Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	4.00	CARE BBB+; Stable	Revised from CARE A-; Positive
Long-term / Short-term bank facilities	125.00	CARE BBB+; Stable / CARE A3+	Revised from CARE A-; Positive/ CARE A2
Short-term bank facilities	465.00	CARE A3+	Revised from CARE A2

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Loyal Textile Mills Limited (LTM) factors in decline in financial performance following slowdown in export demand coupled with higher raw material prices, resulting in losses before tax during FY23 and cash losses during Q1FY24. The ratings continue to derive strength from LTM's long track record 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 as well as the working capital intensive nature of operations marked by high utilisation on working capital debt and moderate current ratio. The ratings are also constrained by susceptibility of profit margins to the volatile raw material prices and cyclical nature of the textile industry.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Improvement in the scale of operations over ₹1,500 crore with PBILDT margin above 10% on a sustained basis.
- Improved capital structure with overall gearing of below 1x.

#### Negative factors

- Any large debt-funded capital expenditure leading to moderation in capital structure with gearing above 2.5x.
- Any prolonged impact of slowdown in export orders leading to decline in operating income below ₹1,000 crore.

### Analytical approach: Standalone

#### Outlook: Stable

The 'stable' outlook reflects that the company is expected to maintain its capital structure with no long-term debt and absence of large debt-funded capex plans. CARE Ratings Limited (CARE Ratings) expects LTM to sustain its healthy relationship with the customers aided by its long-standing track record of operations.

### Detailed description of the key rating drivers:

#### Key strengths

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE Ratings Ltd.'s publications

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

Founded in the year 1956 by Late Karumuttu Thiagaraja Chettiar, LTM is one of the oldest integrated textile mills in south India, having more than seven decades of track record. It has 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. Although the company produces yarn of various counts from 6s to 120s, 40s remains the 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 Air-Jet looms, whereas knitted fabrics include Single jersey, Rib, Inter-lock, Terry, Fleece, Pique, Collar and Cuff 20" to 36" dia with 220 knitting machines. The company also manufactures various home textiles and garments.

**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 46 MW and solar power capacity of 3.3 MW. LTM draws around 40% of its power requirement from captive capacity.

**Key weaknesses****Moderate financial performance in FY23 and Q1FY24**

The operating income of LTM declined by 18.54% from ₹1,767.30 crore in FY22 to ₹1,439.57 crore in FY23 due to the slowdown in export demand primarily from US and EU on account of inflation and interest rate hikes. Furthermore, on account of higher raw material prices which could not be passed on to the customers, the PBILDT margin declined to 4.65% in FY23 from 11.21% in FY22, resulting in profit after tax (PAT) of ₹1.23 crore in FY23 as against ₹91.26 crore in FY22. Due to prolonged slowdown in Q1FY24, the company reported income of ₹294.63 crore, y-o-y drop of 32.87% over Q1FY23. CARE Ratings expects the profitability of LTM to be stressed in the near term owing to the lower orders in knitted fabrics, coupled with the high priced inventory held by the company.

**Moderate capital structure and debt coverage metrics**

LTM does not have any long-term debt obligations. However, due to working capital intensive nature of operations, the overall gearing stood moderate at 2.00 as on June 30, 2023 (2.0x as on March 31, 2023). While interest coverage declined from 6.69x in FY22 to 2.11x in FY23, the total debt/ gross cash accruals (GCA) had moderated to 17.52x as on March 31, 2023 from 3.32x as on March 31, 2022.

**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 average domestic cotton

price, specifically Shankar-6, experienced a significant surge in Cotton Season (CS) 2021-22. After recording a peak of around ₹1 lakh per candy in FY23, domestic cotton prices corrected with the arrival of the new crop. Despite the reduction in cotton prices, CARE Ratings notes that LTM still holds the high-priced cotton procured during FY23, and expects this to exert pressure on profitability in the near term.

#### **Liquidity:** Adequate

The liquidity of the company is adequate characterised by NIL term loan obligations and moderate cash balance of ₹3.45 crore as on March 31, 2023. The company maintains raw material inventory of around 90 to 120 days and finished goods for less than 25 days. However, the inventory increased to 159 days in Q1FY24 from 85 days in FY22 due to slow movement of finished goods and high priced inventory stock. The 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. The average fund-based working capital utilisation stood moderate at around 80% for the 12 months ended July 2023. The company utilises LC for import of raw material and the LC limits are utilised at an average of around 90% during the past 12 months ended July 2023. The current ratio stood low at 0.89 as on June 30, 2023 due to higher working capital borrowings.

**Assumptions/Covenants:** Not applicable

**Environment, social, and governance (ESG) risks:** Not applicable

#### **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](#)

#### **About the company and industry**

##### **Industry classification**

Macro-Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Textiles	Textiles & apparels	Other textile products

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. Its manufacturing facilities are spread over five locations with an aggregate capacity of 135,456 ring spindles, 4,848 rotors, 265 knitting machines, 428 automatic looms, and 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)	31-03-2022 (A)	31-03-2023 (A)	30-06-2023 (UA)
<b>Total operating income</b>	1,767.4	1,439.6	294.6
<b>PBILDT</b>	195.1	66.9	-1.5
<b>PAT</b>	91.3	1.2	-14.1
<b>Overall gearing (times)</b>	1.80	2.00	2.00
<b>Interest coverage (times)</b>	5.33	2.11	-0.13

A: Audited UA: Unaudited; Note: 'the above results are latest financial results 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 of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated:** Annexure-4

**Lender details:** Annexure-5

#### 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 A3+
Non-fund-based - ST-BG/LC		-	-	-	68.00	CARE A3+
Fund-based - ST-PC/Bill Discounting		-	-	-	205.00	CARE A3+
Non-fund-based - ST-Letter of credit		-	-	-	120.00	CARE A3+
Fund-based - LT-Cash Credit		-	-	-	4.00	CARE BBB+; Stable
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	125.00	CARE BBB+; Stable / CARE A3+

#### Annexure-2: Rating history of 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 2023-2024	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
1	Fund-based - ST-EPC/PSC	ST	72.00	CARE A3+	CARE A3+	1)CARE A2 (18-Aug-22)	1)CARE A2 (16-Aug-21)	1)CARE A3+ (30-Oct-20)
2	Fund-based - LT-Term Loan	LT	-	-	-	-	1)CARE A-;Stable (16-Aug-21)	1)CARE BBB+; Negative (30-Oct-20)
3	Non-fund-based - ST-BG/LC	ST	68.00	CARE A3+	CARE A3+	1)CARE A2 (18-Aug-22)	1)CARE A2 (16-Aug-21)	1)CARE A3+ (30-Oct-20)
4	Fund-based - ST-PC/Bill Discounting	ST	205.00	CARE A3+	CARE A3+	1)CARE A2 (18-Aug-22)	1)CARE A2 (16-Aug-21)	1)CARE A3+ (30-Oct-20)
5	Non-fund-based - ST-Letter of credit	ST	120.00	CARE A3+	CARE A3+	1)CARE A2 (18-Aug-22)	1)CARE A2 (16-Aug-21)	1)CARE A3+ (30-Oct-20)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
6	Non-fund-based - ST-Bank Guarantee	ST	-	-	-	-	1)CARE A2 (16-Aug-21)	1)CARE A3+ (30-Oct-20)
7	Fund-based - LT-Cash Credit	LT	4.00	CARE BBB+; Stable	CARE BBB+; Stable	1)CARE A-; Positive (18-Aug-22)	1)CARE A-; Stable (16-Aug-21)	-
8	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST *	125.00	CARE BBB+; Stable / CARE A3+	CARE BBB+; Stable / CARE A3+	1)CARE A-; Positive / CARE A2 (18-Aug-22)	-	-

\*Long term / Short term

**Annexure-3: Detailed explanation of covenants of the rated instruments/facilities:** Not applicable

**Annexure-4: Complexity level of various instruments rated**

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Fund-based - ST-EPC/PSC	Simple
3	Fund-based - ST-PC/Bill discounting	Simple
4	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple
5	Non-fund-based - ST-BG/LC	Simple
6	Non-fund-based - ST-Letter of credit	Simple

**Annexure-5: Lender details**

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

**Note on complexity levels of the rated instruments:** 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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