

Loyal Textile Mills Limited

November 21, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	4.00	CARE BBB; Negative	Reaffirmed; Outlook revised from Stable
Long-term / Short-term bank facilities	125.00	CARE BBB; Negative / CARE A3	Reaffirmed; Outlook revised from Stable
Short-term bank facilities	463.00	CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Loyal Textile Mills Limited (LTM) continue to derive strength from LTM's long track record spanning over seven decades, vertically integrated operations, benefits derived from diverse and niche offerings within each product category, and a geographically widespread clientele.

Ratings are constrained by deteriorating financial performance with cash losses in FY24 (refers to April 01 to March 31) and H1FY25 (refers to April 01 to September 30) following slowdown in export demand, and inventory losses arising from fair value measurement and consumption of relatively high-priced raw material stock. Ratings continue to be constrained by LTM's moderate capital structure and the working capital intensive operations marked by high utilisation on working capital debt, profit margins susceptible to volatile raw material prices and cyclical nature of the textile industry. LTM has asset monetisation plans in the near term to reduce debt levels, and its timely realisation is a key credit monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Profitable turnaround of operations and improving interest coverage above 2.5x on sustained basis.
- Improving capital structure with overall gearing below 1.5x.

Negative factors

- Large debt-funded capital expenditure, leading to moderation in capital structure with gearing above 3x.
- Prolonged impact of slowdown in demand or delayed off-take by customers leading to elongating working capital cycle above 200 days on sustained basis.

Analytical approach: Standalone

Outlook: Negative

The outlook is Negative as the company's profitability is expected to remain muted in the near term due to higher raw material costs and overheads and slowdown in demand. The outlook may be revised to Stable in case the company is able to scale up income with increased contribution from value-added products and improve profitability, going forward.

Detailed description of key rating drivers:

Key strengths

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

Founded in 1956 by Late Karumuttu Thiagaraja Chettiar, LTM is one of the oldest integrated textile mills in south India, having over seven decades of track record. It has an established presence in international and domestic markets. LTM has three ginning factories integrated with four spinning mills in Kovilpatti, Satur, Arasanur and Naidupet, having a combined capacity to produce 85,000 kg of yarn per month. Around 75% of yarn produced is used for captive purposes and the remaining is exported. LTM's has aggregate capacity of 141,120 ring spindles, 4,848 rotors, 277 knitting machines, 428 automatic looms and ~2,000 sewing machines.

Diversified product profile

LTM has different product lines, including yarn, fabrics (woven and knitted), home textiles and garments. Although the company produces yarn of varied counts from 6s to 120s, 40s remains the major pattern. Yarn includes pure organic yarn (100% cotton), blended yarn made of polyester, bamboo and linen, among others. Woven fabrics include Plain, Twill, Drill, Gabardine, 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, and Cuff 20" to 36" diameter with 220 knitting machines. In the recent past, the company carried out major restructuring works across all units to optimise production. LTM reduced outside yarn sales at unfavourable prices and is expected to optimise production to the extent of requirement for captive consumption for its knitting units. LTM is expected to focus more on sales of value-added products in garments segment for better margins.

¹Complete definition of ratings assigned are available at www.careratings.com and other CARE Ratings Limited's publications.

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 yarn under the 'Loyal' brand. LTM generates ~70-80% of its sales from exports markets, well-spread across the USA, Europe, Middle East and Asia. However, it reduced to 39% in FY24 (PY: 51%) and gradually improved to 56% in H1FY25. LTM has well-diversified client base across geographies and its top 10 clients accounted for 35.57% of its total sales in FY23 (43.41% in FY22).

Benefits derived from captive source of power

LTM has made significant investments in windmills, to meet its power requirement. As on March 31, 2024, LTM has an installed windmill capacity of 46 MW and solar power capacity of 3.3 MW. LTM draws ~40% of its power requirement from captive capacity.

Key weaknesses

Moderate financial performance in FY24 and H1FY25

LTM's operating income declined by 33% from ₹1,412.80 crore in FY23 to ₹944.44 crore in FY24 due to slowdown in export demand primarily from the US and EU markets. Considering higher raw material prices and increased overheads due to lower capacity utilisation, the company reported operating losses of ₹31.26 crore in FY24 against operating profits of ₹48.3 crore in FY23. LTM reported cash losses of ₹21.6 crore in FY24 against gross cash accruals (GCA) of ₹37.5 crore in FY23. In H1FY25, LTM reduced outside yarn sales and reported operating income of ₹401.76 crore.

Moderate capital structure and debt coverage metrics

LTM does not have long-term debt obligations. However, due to working capital intensive operations, and net losses in FY24, overall gearing moderated to 2.29x as on March 31, 2024 (2.15x as on March 31, 2024). In H1FY25, LTM reduced working capital borrowings by liquidation of existing inventories and through sale of assets and gearing marginally improved to 1.99x, as on September 30, 2024. Debt coverage indicators remained moderate with cash losses in FY24 and H1FY25.

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

Cotton, the key raw material, exhibited high price volatility in the past, which impacts the company's profitability. Prices of cotton and yarn are governed by factors such as area under cultivation, monsoon, export quota by Government and international demand-supply situation, among others. After recording a peak of ~₹1 lakh per candy (₹280/kg) in FY23, domestic cotton prices were corrected with arrival of the new crop. Despite reduction in cotton prices, LTM had adverse impact in its profitability in the past due its high-priced cotton procured in previous years.

Liquidity: Adequate

The company's liquidity is adequate, characterised by NIL term loan obligations and moderate cash balance of ₹3.45 crore as on March 31, 2023. The company liquidated majority raw material inventory and reduced the raw material holding to ~45-60 days and finished goods for less than 25 days. Credit period by LTM varies up to 60 days. Most export credits are backed by LCs; hence, risk on receivables remains low. Average fund-based working capital utilisation stood moderate at ~85% for 12-months ended October 2025. The company utilises LC for importing raw material and the LC limits are utilised at an average of ~90% in 12-months ended October 2024. The current ratio stood low at 0.80 as on September 30, 2024, due to higher working capital borrowings.

Assumptions/Covenants: Not applicable

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

Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

[Cotton Textile](#)

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 and woven fabrics and garments. LTM is the flagship company of the Loyal group, founded by Late Karumuttu Thiagaraja Chettiar in 1956. Valli M Ramaswami is the Chairperson and the company's daily operations are overseen by A.Velliangiri, Chief Executive Officer, assisted by a team of professionals.

LTM is a vertically integrated textile mill. The company earns majority income from exports and has a diversified clientele across Asia, America, Europe and other regions. LTM's manufacturing facilities are spread over five locations with an aggregate capacity of 141,120 ring spindles, 4,848 rotors, 277 knitting machines, 428 automatic looms and ~2,000 sewing machines. The company also has installed windmills with 46 MW and a solar power plant 6 MW for captive consumption as on March 31, 2024.

Brief Financials (₹ crore)	31-03-2023 (A)	31-03-2024 (A)	6mFY25 (UA)
Total operating income	1,411.80	944.44	401.76
PBILDT	48.3	-31.3.	-35.9
PAT	1.2	-43.0	-67.6
Overall gearing (times)	1.99	2.15	2.12
Interest coverage (times)	1.19	-0.53	-1.37

A: Audited; UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA:

Not applicable

Any other information:

Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	4.00	CARE BBB; Negative
Fund-based - ST-EPC/PSC		-	-	-	115.00	CARE A3
Fund-based - ST-PC/Bill Discounting		-	-	-	190.00	CARE A3
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	125.00	CARE BBB; Negative / CARE A3
Non-fund-based - ST-BG/LC		-	-	-	68.00	CARE A3
Non-fund-based - ST-Letter of credit		-	-	-	90.00	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 2024-2025	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
1	Fund-based - ST-EPC/PSC	ST	115.00	CARE A3	1)CARE A3 (05-Apr-24)	1)CARE A3+ (23-Aug-23)	1)CARE A2 (18-Aug-22)	1)CARE A2 (16-Aug-21)
2	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (18-Aug-22)	1)CARE A-; Stable (16-Aug-21)
3	Non-fund-based - ST-BG/LC	ST	68.00	CARE A3	1)CARE A3 (05-Apr-24)	1)CARE A3+ (23-Aug-23)	1)CARE A2 (18-Aug-22)	1)CARE A2 (16-Aug-21)
4	Fund-based - ST-PC/Bill Discounting	ST	190.00	CARE A3	1)CARE A3 (05-Apr-24)	1)CARE A3+ (23-Aug-23)	1)CARE A2 (18-Aug-22)	1)CARE A2 (16-Aug-21)
5	Non-fund-based - ST-Letter of credit	ST	90.00	CARE A3	1)CARE A3 (05-Apr-24)	1)CARE A3+ (23-Aug-23)	1)CARE A2 (18-Aug-22)	1)CARE A2 (16-Aug-21)
6	Non-fund-based - ST-Bank Guarantee	ST	-	-	-	-	1)Withdrawn (18-Aug-22)	1)CARE A2 (16-Aug-21)
7	Fund-based - LT-Cash Credit	LT	4.00	CARE BBB; Negative	1)CARE BBB; Stable (05-Apr-24)	1)CARE BBB+; Stable (23-Aug-23)	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; Negative / CARE A3	1)CARE BBB; Stable / CARE A3 (05-Apr-24)	1)CARE BBB+; Stable / CARE A3+ (23-Aug-23)	1)CARE A-; Positive / CARE A2 (18-Aug-22)	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities:

Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the 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 detailsTo view lender-wise details of bank facilities please [click here](#)

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

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