

Loyal Textile Mills Limited

March 20, 2025

| Facilities | Amount (₹ crore) | Rating ¹ | Rating Action |
|--|---------------------------------|--------------------------------|---|
| Long Term Bank Facilities | 3.45 (Reduced from 4.00) | CARE BB+; Stable | Downgraded from CARE BBB; Negative |
| Long Term / Short Term Bank Facilities | 96.00 (Reduced from 125.00) | CARE BB+; Stable / CARE A4+ | Downgraded from CARE BBB; Negative / CARE A3 |
| Short Term Bank Facilities | 291.55 (Reduced from 463.00) | CARE A4+ | Downgraded from CARE A3 |

Details of facilities in Annexure-1.

Rationale and key rating drivers

The revision in ratings assigned to the bank facilities of Loyal Textile Mills Limited (LTM) factors in continued decline in financial performance, with operating losses in FY24 (refers to the period April 1 to March 31) and 9mFY25 (refers to the period April 1 to December 31). The company had taken steps to reduce the low value-added yarn sales and increase focus on higher margin garment sales, however the higher overhead costs, coupled with high cost inventories have led to continued operating losses.

The ratings take note of ongoing asset monetization efforts of the company, which has helped reduce debt levels, however delays in asset monetization and continued cash losses from the operations constrain the liquidity position of the company.

The ratings factor in LTM's long track record spanning more than seven decades, vertically integrated nature of operations, benefits derived from diverse offerings within each product category, and a geographically widespread clientele.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Profitable turnaround of operations and improving interest coverage above 1.5x on sustained basis.
- Improving capital structure with overall gearing below 1.8x.

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 continued operating losses.

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects that the company is expected to continue to leverage on its long-standing relationship with its customers and diverse product profile and maintain its capital structure in the absence of large debt funded capex.

Detailed description of key rating drivers

Key weaknesses

Moderate financial performance in FY24 and 9mFY25

operating income declined by 33% to Rs.944.43 crore in FY24 on the back of slowdown in export demand particularly in the knitted fabrics segment. LTM reported operating losses (before interest, depreciation and tax) of Rs.31.26 crore in FY24. The losses in FY24, were cushioned to an extent by Non-operating income of Rs.68.58 crore which includes Rs.28.6 crore of power subsidy received from Andhra Pradesh Industrial Investment promotion policy and insurance claim of Rs.18.30 crore towards a fire accident.

The company stopped operations of a spinning unit in current financial year and consolidated other two spinning units for operational efficiency and reduced external sales of yarn. The company in the past had accumulated high priced raw material stock which could not be passed on to the customers due to sluggish demand scenario. During Q2FY25, the company consumed majority of high-priced cotton, and revalued the remaining stock, providing Rs.7.48 crore on Net realizable value. This led to higher operating losses of Rs.33.1 crore in Q2FY25. However, LTM continued to report operating losses of Rs.14.93 crore in Q3FY25 as well.

Moderate capital structure and debt coverage metrics

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

LTM does not have long-term debt obligations. The company substantially reduced the working capital borrowings from Rs.622.16 crore as on March 31, 2024 to Rs.472.5 crore as on September 30, 2024 through asset sale and liquidating inventories. During Q2FY25, the company had sold assets for Rs.26 crore, including profit of Rs.21.37 crore. LTM also sold an asset in February 2025 for Rs.45 crore (including profit of Rs.40.9 crore). Despite the reduction in working capital borrowings, the capital structure continued to remain moderate with overall gearing of 2.15x (PY: 1.99x) as on March 31, 2024. The debt protection metrics remain weak with cash losses of Rs.21.59 crore in FY24 and Rs.84.51 crore in 9mFY25. The company had identified assets for sale such as windmills, recently closed spinning unit and vacant lands in another unit, which is expected to be realized over the next one year. The timely monetization of the planned asset sale within envisaged timelines and reduction in debt levels is key monitorable.

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 to its high-priced cotton procured in previous years.

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. LTM 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. During FY24, the company derived 28% of income from Yarn, 51% from knitted and woven fabrics and 21% from garments. LTM has also 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 meets ~40% of its power requirement from captive capacity.

Diversified product profile

LTM has different product lines, including yarn, fabrics (woven and knitted), home textiles and garments. 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, whereas knitted fabrics include Single jersey, Rib, Inter-lock, and Cuff 20" to 36" diameter. In the recent past, the company carried out major restructuring works across all units to optimise production. LTM is expected to focus more on sales of value-added products in garments segment for better margins.

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, exports declined to 39% of TOI 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 24.3% of its total sales in FY24 (35.57% in FY23).

Liquidity: Stretched

Liquidity is stretched marked by operating losses in FY24 and 9mFY25, however supported by proceeds from asset sale and subsidies from Government in the past. LTM does not have long term debt obligations. The cash balance stood moderate at ₹3.19 crore as on Sep 30, 2024. The inventory period increased to 177 days in FY24 from 131 days in FY23 due to slow movement of finished goods inventory. The same improved in H1FY25 to 140 days due to consumption of majority of high-priced raw material inventory. which has been purchased and kept for high priced export orders since 2022. 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 relatively low. The average fund-based working capital utilisation stood high at around 98.39% for the 12 months ended February 2025. The company also utilises LC for import of raw material and the LC limits are utilised at an average of around 95% during the past 12 months ended February 2025. The current ratio stood low at 0.80 as on Sep 30, 2024.

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](#)
[Cotton Textile](#)
[Short Term Instruments](#)

About the company and industry

Industry classification

| Macroeconomic 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 has aggregate capacity of 1,06,783 ring spindles, 4,848 rotors, 270 knitting machines, 384 automatic looms and 1,894 sewing machines as on February 28, 2025. The company has installed windmills with 46 MW and a solar power plant 6 MW for captive consumption as on March 31, 2024.

| Brief Financials (₹ crore) | March 31, 2023 (A) | March 31, 2024 (A) | December 31, 2024 (UA) |
|----------------------------|--------------------|--------------------|------------------------|
| Total operating income | 1411.8 | 944.43 | 548.78 |
| PBILDT | 48.3 | (31.26) | (50.83) |
| PAT | 1.20 | (46.48) | (95.44) |
| Overall gearing (times) | 1.99 | 2.15 | NA |
| Interest coverage (times) | 1.19 | (0.53) | (1.34) |

A: Audited; UA: Unaudited; NA: Not Available; 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 instruments/facilities: 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 | | - | - | - | 3.45 | CARE BB+; Stable |
| Fund-based - ST-EPC/PSC | | - | - | - | 105.55 | CARE A4+ |
| Fund-based - ST-PC/Bill Discounting | | - | - | - | 124.00 | CARE A4+ |
| LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG | | - | - | - | 96.00 | CARE BB+; Stable / CARE A4+ |
| Non-fund-based - ST-BG/LC | | - | - | - | 2.00 | CARE A4+ |
| Non-fund-based - ST-Letter of credit | | - | - | - | 60.00 | CARE A4+ |

Annexure-2: Rating history for 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 | 105.55 | CARE A4+ | 1)CARE A3 (21-Nov-24) 2)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 | 2.00 | CARE A4+ | 1)CARE A3 (21-Nov-24) 2)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 | 124.00 | CARE A4+ | 1)CARE A3 (21-Nov-24) 2)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 | 60.00 | CARE A4+ | 1)CARE A3 (21-Nov-24) 2)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 | 3.45 | CARE BB+; Stable | 1)CARE BBB; Negative (21-Nov-24) 2)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 | 96.00 | CARE BB+; Stable / CARE A4+ | 1)CARE BBB; Negative / CARE A3 (21-Nov-24) 2)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 details

To view the 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.

Contact Us

| | |
|--|---|
| Media Contact Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in Relationship Contact Ankur Sachdeva Senior Director CARE Ratings Limited Phone: 91 22 6754 3444 E-mail: Ankur.sachdeva@careedge.in | Analytical Contacts Sandeep P Director CARE Ratings Limited Phone: 914428501002 E-mail: sandeep.prem@careedge.in Naveen S Associate Director CARE Ratings Limited Phone: 914224502305 E-mail: naveen.kumar@careedge.in S. Bhavasruthini Analyst CARE Ratings Limited E-mail: S.Bhavasruthini@careedge.in |
|--|---|

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

**For the detailed Rationale Report and subscription information,
please visit www.careedge.in**