

## Loyal Textile Mills Limited

February 11, 2020

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long-term Bank Facilities	124.00	CARE BBB+; Negative (Triple B Plus; Outlook: Negative)	Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)
Short-term Bank Facilities	433.00	CARE A3+ (A Three Plus)	Reaffirmed
<b>Total Facilities</b>	<b>557.00</b> <b>(Rupees Five Hundred and fifty seven crore only)</b>		

*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 widespread clientele.*

*The ratings, however, continue to be constrained by LTM's moderately high gearing level, working capital intensive nature of operations, susceptibility of profit margins to the volatile raw material prices and cyclical nature of the textile industry.*

### Outlook: Negative

*The outlook is 'Negative' on account of the reduced off take from major customers due to unfavorable export environment which is expected to lead to lower than expected cash accruals for the year. The outlook will be revised to 'stable' if the company is able to ramp up sales and improve profitability in the near future. However, any further decline in sales and profitability and consequent impact on the liquidity or capital structure of the company may lead to a downward revision in the rating.*

### Rating Sensitivities

#### Positive factors

- *Improvement in scale of operations and profitability with PBDIT 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.*
- *Any sharp decline in sales and reduced cash accruals leading to deterioration in debt coverage indicators*

### 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/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

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

turn integrated with weaving, knitting, processing and garmenting units thereby contributing to efficiencies of scale in production.

#### ***Diverse product range***

Company's spinning division produces various types of yarns like organic yarn (100% cotton), Blended yarn (Polyester), Bamboo, 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 weaving division produces garments for formal and casual wear while the company has a niche and established presence in technical textiles. LTM also has an exclusive division for home textiles, producing products like bed linen and other upholstery.

#### ***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 88-90% 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 47% of its total sales in FY19 (43% in FY18).

#### ***Benefits derived from captive source of power:***

The company requires stable and optimum quantity of power for smooth functioning of its modern equipments. The company has captive windmill and solar power with a capacity of 46MW and 3.3MW respectively. LTM draws 46% of its power requirement from captive sources.

#### **Key Rating Weaknesses**

##### ***Growth in revenue however declined profitability***

The company registered an increase of 13.81% in total income from operations at Rs. 1309.06 crores in FY19 compared to Rs. 1,160 crore during FY18 due to improved off take from its major customers and better realizations. Nevertheless LTM witnessed moderation in its PBILDT margin which stood at 8.88% in FY19 compared to 9.48% in FY18 due to increase in raw material prices, mainly cotton, increase in power and fuel charges. However the revenue and profitability declined in FY20 owing to subdued export environment which has led to reduced off take from its major customers. The revenue from operations for 9MFY20 moderated to Rs. 834.04 crores as against Rs. 972.81 crores in 9MFY19. PBDIT margin has also declined to 8.14% in 9MFY20 as against 9.51% in 9MFY19. The fall was sharp in Q3FY20 where the PBDIT margin dropped to 7.34% as against 8.87% in Q3FY19 and 9.31% in Q2FY20. With the drop in overall income levels and margins the GCA levels were significantly lower at Rs.40 crore in 9MFY20 as compared to Rs.60 crore in 9MFY19.

##### ***Moderate Capital Structure:***

The overall gearing stood moderate at 2.24x as on March 31<sup>st</sup>, 2019, though it has improved from 2.68x as on March 31, 2018 owing to consistent reduction in term loans. The long term debt equity ratio improved from 1.07x as on March 31, 2018 to 0.70x as on March 31, 2019. The interest coverage ratio was 2.96x for FY19 compared to 2.75x in FY18.

##### ***Liquidity- Adequate***

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. All 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. LTM had Rs 3.14 crores of cash balance as on September 30, 2019 as against Rs.4.97 crore as on March 31, 2019. The current ratio was moderate at 0.89 as on March 31<sup>st</sup>, 2019, owing to higher working capital borrowings.

#### **Analytical approach:**

Standalone

#### **Applicable Criteria**

[CARE's Criteria on assigning 'Outlook' and 'credit watch' to Credit Ratings](#)  
[Rating Methodology-Manufacturing Companies](#)

[Rating Methodology - Short Term Instruments](#)  
[Rating Methodology- Cotton Textile Manufacturing](#)  
[CARE's Policy on Default Recognition](#)  
[Financial ratios -Non-Financial Sector](#)

#### About the Company

Loyal Textiles Mills Ltd (LTM) is one of the oldest vertically 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 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, 235 knitting machines, 428 automatic looms, 1,628 sewing machines and has a capacity to produce 24,000 MT per annum of Hosiery cloth and cloth processing of 51 million metres per annum.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	1,157.86	1309.06
PBILDT	107.32	116.27
PAT	23.24	25.74
Overall gearing (times)	2.68	2.24
Interest coverage (times)	2.75	2.96

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

#### 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	-	-	-	210.00	CARE A3+
Fund-based - LT-Term Loan	-	-	March 2022	124.00	CARE BBB+; Negative
Non-fund-based - ST-BG/LC	-	-	-	62.00	CARE A3+
Fund-based - ST-PC/Bill Discounting	-	-	-	80.00	CARE A3+
Non-fund-based - ST-Letter of credit	-	-	-	80.00	CARE A3+
Non-fund-based - ST-Bank Guarantees	-	-	-	1.00	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 (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - ST-EPC/PSC	ST	210.00	CARE A3+	1)CARE A3+ (15-Nov-19)	1)CARE A3+ (24-Dec-18)	1)CARE A3+ (28-Dec-17)	1)CARE A3+ (04-Nov-16)
2.	Fund-based - LT-Cash Credit	LT	-	-	1)Withdrawn (15-Nov-19)	1)CARE BBB+; Stable (24-Dec-18)	1)CARE BBB; Stable (28-Dec-17)	1)CARE BBB (04-Nov-16)
3.	Fund-based - LT-Term Loan	LT	124.00	CARE BBB+; Negative	1)CARE BBB+; Stable (15-Nov-19)	1)CARE BBB+; Stable (24-Dec-18)	1)CARE BBB; Stable (28-Dec-17)	1)CARE BBB (04-Nov-16)
4.	Non-fund-based - ST-BG/LC	ST	62.00	CARE A3+	1)CARE A3+ (15-Nov-19)	1)CARE A3+ (24-Dec-18)	1)CARE A3+ (28-Dec-17)	1)CARE A3+ (04-Nov-16)
5.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	-	-	-	-	1)Withdrawn (28-Dec-17)	1)CARE BBB / CARE A3+ (04-Nov-16)
6.	Fund-based - ST-PC/Bill Discounting	ST	80.00	CARE A3+	1)CARE A3+ (15-Nov-19)	1)CARE A3+ (24-Dec-18)	1)CARE A3+ (28-Dec-17)	1)CARE A3+ (04-Nov-16)
7.	Non-fund-based - ST-Letter of credit	ST	80.00	CARE A3+	1)CARE A3+ (15-Nov-19)	1)CARE A3+ (24-Dec-18)	1)CARE A3+ (28-Dec-17)	1)CARE A3+ (04-Nov-16)
8.	Non-fund-based - ST-Bank Guarantees	ST	1.00	CARE A3+	1)CARE A3+ (15-Nov-19)	1)CARE A3+ (24-Dec-18)	1)CARE A3+ (28-Dec-17)	1)CARE A3+ (04-Nov-16)

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

## Contact Us

### Media Contact

Name: Mr. Mradul Mishra  
Contact no.: 022-6837 4424  
Email ID – [mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)

### Analyst Contact

Name: Mr. P. Sandeep  
Contact no.: 044 2850 1000  
Email ID: [sandeep.prem@careratings.com](mailto:sandeep.prem@careratings.com)

### Relationship Contact

Name: Mr. V Pradeep Kumar  
Contact no. : 044 2850 1001  
Email ID: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

### Disclaimer

CARE's 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. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**