

## Loyal Textile Mills Limited

December 24, 2018

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long-term Bank Facilities	254.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)
Short-term Bank Facilities	278.00 (Enhanced from 248.00)	CARE A3+ (A Three Plus)	Reaffirmed
<b>Total Facilities</b>	<b>532.00</b> <b>(Rupees Five Hundred and thirty two crore only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the long-term bank facilities of Loyal Textile Mills Limited (LTM) is on account of improvement in the long term debt equity ratio and debt protection metrics in the past two and half year period ended September 30, 2018. The ratings continue to derive strength from the long track record of LTM spanning more than seven decades, highly experienced management team, vertically integrated nature of operations, benefits derived from diverse offerings within each product category and a widespread clientele. The ratings, however, continue to be constrained by LTM's moderately high gearing level though same has witnessed improvement in the recent past, high working capital intensity, and susceptibility of profit margins to the volatile raw material prices and cyclical nature of the textile industry. Going forward, the ability of the company to improve its profitability, further rationalization of debt levels and any large debt funded capex will be the key rating sensitivities.

### 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). He was appointed as CEO of LTM on March 30, 2018. He is aided by a well experienced management team. Most of the senior management of LTM has good experience in the industry and have been associated with LTM for more than 20 years.

##### **Long operational track record of LTM with large & geographically diversified customer base:**

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. 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 90-93% of its sales from exports markets, well spread over various countries in USA, Europe, Middle East and Asia. With diversified nature of its export income the company has weathered the demand slowdown in some of the global markets. On account of the geographically diversified customer base, LTM has been resilient to the slowdown in any geography. The company covers its entire net forex position and does not keep any transaction unhedged. For LTM, the share of imports in the raw material sourcing has generally remained low. It is also worthwhile to note that LTM has well diversified client base across various geographies and top 10 clients' accounts for 43% of its total sales in FY18 (35% in FY17).

##### **Vertically integrated textile mills with diverse product range:**

LTM is a vertically integrated textile mill with diverse product offering. Company's spinning division produces cotton yarn, blended yarn, compact yarn, mélange yarn, carbon yarn etc. of varying count range (7's to 120's). During FY15, the company has entered into specialized yarns production such as linen blend yarn, bamboo blended yarn etc. as well. These are value added products which fetch higher margins and are ordered in smaller lots. To cater to this segment, as well as to enable the company to take orders of various lot sizes, LTM has split the production unit setup into smaller units. Weaving division produces both woven and knitted fabrics. Company's garments division produces technical textile and also other garments of common use (including home textiles). Also, the company offers a wide range within each product category. The company has a niche presence in technical textile segment, producing flame resistant garments, suitable for

<sup>2</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

thermal and electrical settings. During FY18, sales contribution of each product category viz., yarn, cloth, hosiery and garments was 11% (P.Y 12%), 32% (P.Y 38%), 45% (P.Y 38%) and 10% (P.Y 11%) of total sales respectively.

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

In the past, the power scenario in the state of Tamil Nadu was precarious, with severe power outages affecting the productivity of LTM. In order to tide over the situation, in the past LTM made significant investments in windmills, largely debt funded, to meet its power requirement. As on March 2018, LTM has installed windmill capacity of 46MW and solar power capacity of 3.3MW. During FY18, due to better availability of wind, 733.84 lakh units were generated from captive windmills as against 691 lakh units in FY17. Also, it may be noted that TN wind industry faced evacuation problem till FY16. With setting up of additional transmission infrastructure in the state, power evacuation from windmills has improved significantly from FY17 onwards. The power and fuel cost of the company stood at Rs.64.7 Cr in FY18 as against Rs.73 crore in FY17.

**Key Rating Weaknesses**

**Improvement in profitability during H1FY19 after witnessing moderation in FY18:**

The company registered a total income of Rs. 1,160 crore during FY18 as against a total income of Rs. 1,136 crore during FY17. Despite improvement in sales performance of Hosiery cloth and garments, the growth was restricted due to drop in trading income. LTM witnessed moderation in its PBILDT margin which stood at 9.48% in FY18 as against 11.54% in FY17 due to increase in raw material prices mainly cotton and decline in export duty drawback rates. During H1FY19, income from operations registered growth of around 19% on YoY basis. Absolute PBILDT and PAT also improved and stood at Rs 62.8 cr (PY Rs 55.1 cr) and Rs 14.4 cr (PY Rs 5.2 cr) respectively. PBILDT margin stood at 9.85% in H1FY19 slightly better than FY18 level.

**Continuous improvement in the leveraged capital structure:**

Long term debt equity ratio improved from 1.69x as on March 31, 2016 to 1.06x as on March 31, 2018. The overall gearing has improved from 3.86x as on March 31, 2016 to 2.68x as on March 31, 2018 on account of reduction in both term and working capital borrowings.

LTM had bills discounted outstanding of Rs.94.9 crore as on March 31, 2018 as against Rs. 82.2 crore as on March 31, 2017 which are fully backed by LCs. Adjusting for the same, the overall gearing stood at 2.19x as on March 31, 2018 as against 2.69x as on March 31, 2017. However, leverage stood moderately high with LT Debt equity ratio and overall gearing stood at 0.83x and 2.40x respectively as on Sep 30, 2018. Going forward, in the absence of any major debt funded capex and relatively stable cash accruals, leverage levels are expected to improve.

**Liquidity:**

During FY18, current ratio stood at 0.86x as against 0.83x on March 31, 2017. The company maintains raw material inventory of around 60 days and finished goods for less than 25 days. Credit period given by LTM to customers varies up to 60 days. All export credits are backed by LCs. With respect to sales in the domestic market, LTM does on cash basis. LTM generally gets credit period of around 30 days for purchases. Operating cycle stood at 98 days in FY18. LTM resorts to working capital borrowings to manage the operations and the average working capital utilization of the company over the past 12 months ended October 2018 has been around 95%. LTM had around Rs 5 cr free cash balance as on Sep 30, 2018.

**Prospects**

With a well-established, integrated nature of operations and geographically diversified client base, LTM managed to thrive in the sluggish market conditions arising out of excess capacity and high tariffs faced by Indian textile exports. The company has also incurred significant debt-funded capital expenditure for capacity addition/modernization, windmills and technology upgradation in the past which has resulted in higher overall gearing. With these investments generating returns and relatively stable cash accruals in the past three years, leverage levels have seen improvement during the period. Ability of the company to improve its profitability and cash accruals and further rationalization of debt levels will be key rating sensitivity.

**Analytical approach:**

Standalone

**Applicable Criteria**

[Rating Methodology-Manufacturing Companies](#)

[Rating Methodology - Short Term Instruments](#)

[Rating Methodology- Cotton Yarn Industry](#)

[Criteria on assigning Outlook to Credit Ratings](#)

**CARE's Policy on Default Recognition**  
**Financial ratios (Non-Financial Sector)**

**About the Company**

Loyal Textiles Mills Ltd (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 Mr. Karumuttu Thiagaraja Chettiar in the year 1956. LTM is a vertically integrated textile mill, the company earns majority of its income from exports (92.44% total income in FY18) and has a diversified clientele spread across Asia (48.14%), America (22.88%), Europe and other regions (21.42%).

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, 1,425 sewing machines and 12.48 million meters of processing capacity as on March 31, 2018. The company has installed several windmills (46 MW) and a solar power plant (3.3 MW) for captive consumption with an aggregate installed capacity of 49.3 MW as on March 31, 2018.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	1,136	1,160
PBILDT	131	110
PAT	24	23
Overall gearing (times)	3.15	2.68
Interest coverage (times)	3.12	2.82

A: Audited

**Status of non-cooperation with previous CRA:** NA

**Any other information:** NA

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

**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.

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## 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	-	-	-	150.00	CARE A3+
Fund-based - LT-Cash Credit	-	-	-	90.00	CARE BBB+; Stable
Fund-based - LT-Term Loan	-	-	March 2023	164.00	CARE BBB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	62.00	CARE A3+
Fund-based - ST-PC/Bill Discounting	-	-	-	35.00	CARE A3+
Non-fund-based - ST-Letter of credit	-	-	-	30.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - ST-EPC/PSC	ST	150.00	CARE A3+	-	1)CARE A3+ (28-Dec-17)	1)CARE A3+ (04-Nov-16)	1)CARE A3+ (02-Nov-15)
2.	Fund-based - LT-Cash Credit	LT	90.00	CARE BBB+; Stable	-	1)CARE BBB; Stable (28-Dec-17)	1)CARE BBB (04-Nov-16)	1)CARE BBB (02-Nov-15)
3.	Fund-based - LT-Term Loan	LT	164.00	CARE BBB+; Stable	-	1)CARE BBB; Stable (28-Dec-17)	1)CARE BBB (04-Nov-16)	1)CARE BBB (02-Nov-15)
4.	Non-fund-based - ST-BG/LC	ST	62.00	CARE A3+	-	1)CARE A3+ (28-Dec-17)	1)CARE A3+ (04-Nov-16)	1)CARE A3+ (02-Nov-15)
5.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	-	-	-	1)Withdrawn (28-Dec-17)	1)CARE BBB / CARE A3+ (04-Nov-16)	1)CARE BBB / CARE A3+ (02-Nov-15)
6.	Fund-based - ST-PC/Bill Discounting	ST	35.00	CARE A3+	-	1)CARE A3+ (28-Dec-17)	1)CARE A3+ (04-Nov-16)	1)CARE A3+ (02-Nov-15)
7.	Non-fund-based - ST-Letter of credit	ST	30.00	CARE A3+	-	1)CARE A3+ (28-Dec-17)	1)CARE A3+ (04-Nov-16)	1)CARE A3+ (02-Nov-15)
8.	Non-fund-based - ST-Bank Guarantees	ST	1.00	CARE A3+	-	1)CARE A3+ (28-Dec-17)	1)CARE A3+ (04-Nov-16)	1)CARE A3+ (02-Nov-15)

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