

Loyal Textile Mills Limited
 October 30, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	88.76 (Reduced from 124.00)	CARE BBB+; Negative (Triple B Plus; Outlook: Negative)	Reaffirmed
Short-term Bank Facilities	403.00 (Reduced from 433.00)	CARE A3+ (A Three Plus)	Reaffirmed
Total Facilities	491.76 (Rs. Four hundred ninety one crore and seventy six lakh only)		

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 moderate 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 demand distortions and slowdown in export environment induced by Covid-19 pandemic 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 the scale of operations and profitability with PBILDT 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 the sales and reduced cash accruals due to Covid pandemic 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/ CARE 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 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.

²Complete definition of the ratings assigned are available at www.careratings.com and other CARE 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 of yarn under the 'Loyal' brand. LTM generates approximately 80-85% 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 42% of its total sales in FY20 (47% in FY19).

Benefits derived from captive source of power: LTM was grappling with critical power shortages in the last decade thereby incurring significant costs in power and fuel. Since then LTM has made significant investments in windmills, largely debt funded, to meet its power requirement. As on March 2020, LTM has installed windmill capacity of 46MW and solar power capacity of 3.3MW. LTM draws around 55% of its power requirement from captive capacity.

Key Rating Weaknesses

Decline in revenue and profitability during FY20 & Q1FY21: The operating income declined by 15% to Rs.1309 crore in FY20 from Rs.1106 crore in FY19 while the PBILDT margin reduced from 8.88% to 7.89% in FY20. The drop in sales is mainly due to decrease in off take from one of its top export customers and also slowdown in yarn exports due to uncompetitive prices in global market. The profitability declined due to lower realizations across the product mix accompanied by increased power and employee costs amidst lower sales. The PAT decreased from Rs.25.7 crore in FY19 to Rs.4.3 crore in FY20. During Q1FY21, due to Covid-19 lockdown and impact on operations, the company reported net loss of Rs.2.1 crore on total income of Rs.180.3 crore.

Moderate capital structure, albeit improved during FY20: The overall gearing though improved stood moderate at 1.81x as on March 31, 2020 albeit improved from 2.24x as on March 31, 2019. The long-term debt equity ratio improved from 0.70x as on March 31, 2019 to 0.48x as on March 31, 2020. The interest coverage ratio moderated to 2.36x in FY20 compared with 2.96x in FY19.

Liquidity- Adequate

Adequate liquidity characterized by sufficient cushion in accruals vis-à-vis repayment obligations and moderate cash balance of Rs.1.52 Crore (PY: Rs.4.97 crore) as on March 31, 2020. The company maintains raw material inventory of around 90 to 120 days and finished goods for less than 25 days. LTM extends credit period up to 60 days for the customers. 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. The average working capital utilisation stood at 93.66% for the 12 months ended July 2020. The current ratio was moderate at 0.85 as on March 31, 2020, owing to higher working capital borrowings. The company had opted for moratorium from March-August 2020 offered by banks as relief measure for Covid-19 pandemic

Industry outlook and impact of covid-19

Apparel exports contribute the maximum in overall exports of textile items from India accounting for approximately 45% on an average. The growth in export of apparels remained subdued during FY17 to FY19 and continued with similar trend during the period April 2019 to January 2020 as outbound shipments of apparel exports increased by a marginal 0.2% y-o-y to USD 12.9 billion. The apparel exports from India faces tough competition from the competitors Bangladesh and Vietnam as they get preferred access to India's key market - the European Union. The demand distortions due to Covid-19 pandemic are expected to hurt the domestic textiles production as well. The unsold stock with the industry players may soon run out of fashion for the next season to come which will add to the industry's burden. Given the unfavourable demand scenario, textile firms may not utilise their full capacities or may undertake production cuts thus bringing down the overall output of textiles during FY21.

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 integrated textile mills in south India, with facilities for the 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, 265 knitting machines, 428 automatic looms, 1,741 sewing machines .

Brief Financials (Rs. crore)	FY19 (A)	FY20(A)
Total operating income	1309.06	1106.43
PBILDT	116.27	87.27
PAT	25.74	4.31
Overall gearing (times)	2.24	1.81
Interest coverage (times)	2.96	2.36

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	-	-	March 2022	190.00	CARE A3+
Fund-based - LT-Term Loan	-	-	-	88.76	CARE BBB+; Negative
Non-fund-based - ST-BG/LC	-	-	-	77.00	CARE A3+
Fund-based - ST-PC/Bill Discounting	-	-	-	55.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - ST-EPC/PSC	ST	190.00	CARE A3+	-	1)CARE A3+ (11-Feb-20) 2)CARE A3+ (15-Nov-19)	1)CARE A3+ (24-Dec-18)	1)CARE A3+ (28-Dec-17)
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)
3.	Fund-based - LT-Term Loan	LT	88.76	CARE BBB+; Negative	-	1)CARE BBB+; Negative (11-Feb-20) 2)CARE BBB+; Stable (15-Nov-19)	1)CARE BBB+; Stable (24-Dec-18)	1)CARE BBB; Stable (28-Dec-17)
4.	Non-fund-based - ST-BG/LC	ST	77.00	CARE A3+	-	1)CARE A3+ (11-Feb-20) 2)CARE A3+ (15-Nov-19)	1)CARE A3+ (24-Dec-18)	1)CARE A3+ (28-Dec-17)
5.	Fund-based - LT/ST-CC/Packing Credit	LT/ST	-	-	-	-	-	1)Withdrawn (28-Dec-17)
6.	Fund-based - ST-PC/Bill Discounting	ST	55.00	CARE A3+	-	1)CARE A3+ (11-Feb-20) 2)CARE A3+ (15-Nov-19)	1)CARE A3+ (24-Dec-18)	1)CARE A3+ (28-Dec-17)
7.	Non-fund-based - ST-Letter of credit	ST	80.00	CARE A3+	-	1)CARE A3+ (11-Feb-20) 2)CARE A3+ (15-Nov-19)	1)CARE A3+ (24-Dec-18)	1)CARE A3+ (28-Dec-17)
8.	Non-fund-based - ST-Bank Guarantees	ST	1.00	CARE A3+	-	1)CARE A3+ (11-Feb-20) 2)CARE A3+ (15-Nov-19)	1)CARE A3+ (24-Dec-18)	1)CARE A3+ (28-Dec-17)

Annexure 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - ST-EPC/PSC	Simple
3.	Fund-based - ST-PC/Bill Discounting	Simple
4.	Non-fund-based - ST-Bank Guarantees	Simple
5.	Non-fund-based - ST-BG/LC	Simple
6.	Non-fund-based - ST-Letter of credit	Simple

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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