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INTEGRATED MANAGEMENT SYSTEM CERTIFIED AND PRACTICING COMPANY

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GSTIN : Tamil Nadu : 33AAACL2632C1Z8, Andhra Pradesh : 37AAACL2632C1Z0

CIN : L17111TN1946PLC001361, PAN : AAACL2632C

REF: LOYAL/SEC/2024-25/002

April 09, 2024

The Secretary, Listing Department BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400 001 Scrip Code: 514036	The Manager, Listing Department National Stock Exchange of India Limited Exchange Plaza, 5th Floor, Plot No. C/1, G Block, Bandra-Kurla Complex, Bandra (E), Mumbai - 400 051. Symbol: LOYALTEX
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Dear Sir / Madam,

Sub: Revision of Credit Rating

This is with reference to the E-mail dated 8<sup>th</sup> April 2024 received from National Stock Exchange (NSE) regarding clarification of revision of Credit Rating, We hereby inform you that, Company's Credit Rating for Long term and Short term Bank facilities has been revised (downgraded) by the Credit Rating agency "CARE Ratings Limited" has mentioned below:

**Credit Rating of Bank Facilities:**

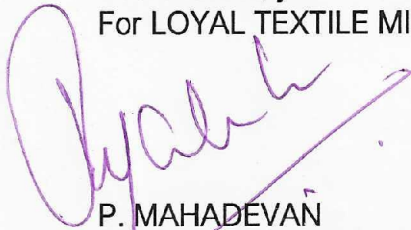
Facilities	Rating	Rating Action
Long Term Bank Facilities	CARE BBB; Stable	Revised from CARE BBB+; Stable
Short Term Bank Facilities	CARE A3	Revised from CARE A3+

The Rating Rationale provided by Credit Ratings Ltd is enclosed for your kind information and record.

Thanking You,

Yours faithfully

For LOYAL TEXTILE MILLS LIMITED



P. MAHADEVAN

Company Secretary & Compliance Officer

Membership No. F9150



Encl: As above

Registered Office :

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**Annexure I**  
**Rating Rationale**  
**Loyal Textile Mills Limited**

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	4.00	CARE BBB; Stable	Revised from CARE BBB+; Stable
Long-term / Short-term bank facilities	125.00	CARE BBB; Stable / CARE A3	Revised from CARE BBB+; Stable / CARE A3+
Short-term bank facilities	463.00	CARE A3	Revised from CARE A3+

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The revision in ratings assigned to bank facilities of Loyal Textile Mills Limited (LTM) factors in decline in financial performance following slowdown in export demand coupled with higher raw material prices, resulting in cash losses in 9mFY24 (refers to the period April 1 to March 31). Ratings continue to derive strength from LTM's long track record spanning more than seven decades, vertically-integrated nature of operations, benefits derived from diverse and niche offerings within each product category, and a geographically-widespread clientele. However, ratings continue to be constrained by LTM's moderate capital structure as well as the working capital intensive nature of operations marked by high utilisation on working capital debt and moderate current ratio. Ratings are also constrained by susceptibility of profit margins to the volatile raw material prices and cyclical nature of the textile industry.

### 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 offtake by customers leading to elongating working capital cycle above 200 days on sustained basis.

**Analytical approach:** Standalone

#### Outlook: Stable

The 'stable' outlook reflects that the company is expected to maintain its capital structure with absence of large debt-funded capex plans. CARE Ratings Limited (CARE Ratings) expects LTM to sustain its healthy relationship with the customers aided by its long-standing track record of operations.

### Detailed description of the key rating drivers:

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

Founded in the year 1956 by Late Karumuttu Thiagaraja Chettiar, LTM is one of the oldest integrated textile mills in south India, having more than seven decades of track record. It has an established presence, both in international and domestic markets. LTM has three ginning factories integrated with four spinning mills located in Kovilpatti, Satur, Arasanur and Naidupet having a combined capacity to produce 24,000 kg of yarn per month. Around 75% of the yarn produced is used for captive purposes and the remaining is exported. These are in turn integrated with weaving, knitting, processing and garmenting units thereby contributing to efficiencies of scale in the production. The vertically integrated nature of operations enables the company to partially mitigate the volatility in cotton prices as LTM can buy yarn outside when prices are low and also resort to captive consumption when market prices are higher.

#### Diversified product profile

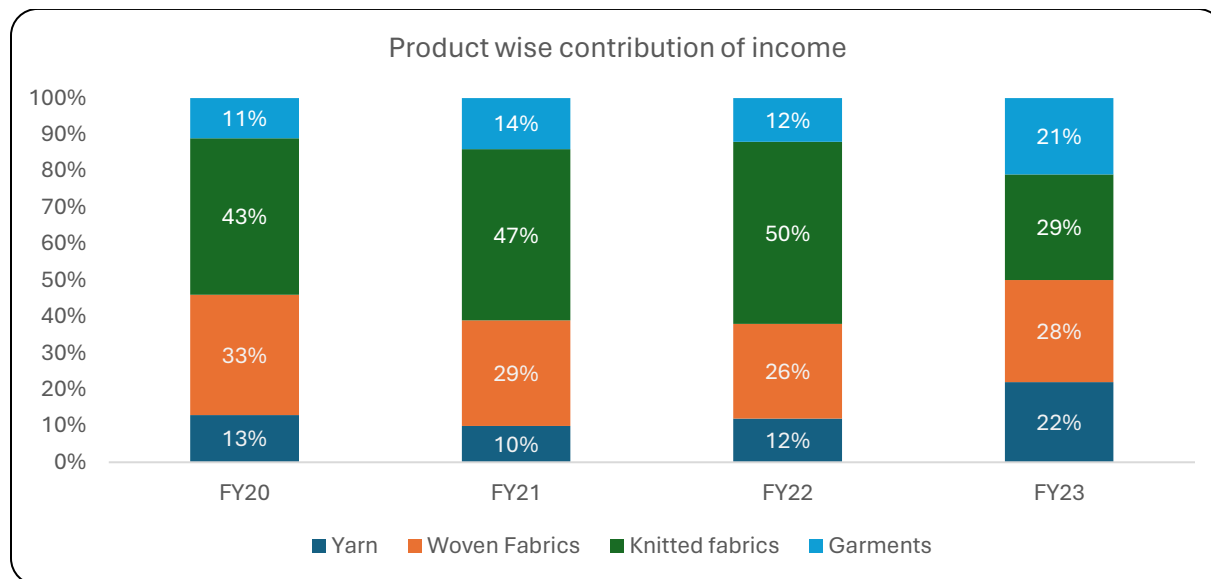
LTM has different product lines, including yarn, fabrics (woven and knitted), home textiles and garments. Although the company produces yarn of various counts from 6s to 120s, 40s remains the major pattern. The company's spinning division produces various types of yarns like organic yarn (100% cotton), blended yarn (Polyester), linen, vortex yarn- made of 100%

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

polyester or viscose cotton yarn catering to the specific needs of clients using the latest available technology. The counts of these yarns vary from Ne 6’s to Ne 120’s. The fabrics division produces both woven and knitted fabrics.

LTM produces fabrics in widths ranging from 50 inches to 134 inches with 428 Air-Jet looms with the production of 150,000 metres/day. The weaving division provides garments for formal wear, casual wear, work wear, home furnishing and high-end technical textile garments. The company has a niche presence in technical textile segment, producing flame-resistant garments, suitable for thermal and electrical settings.

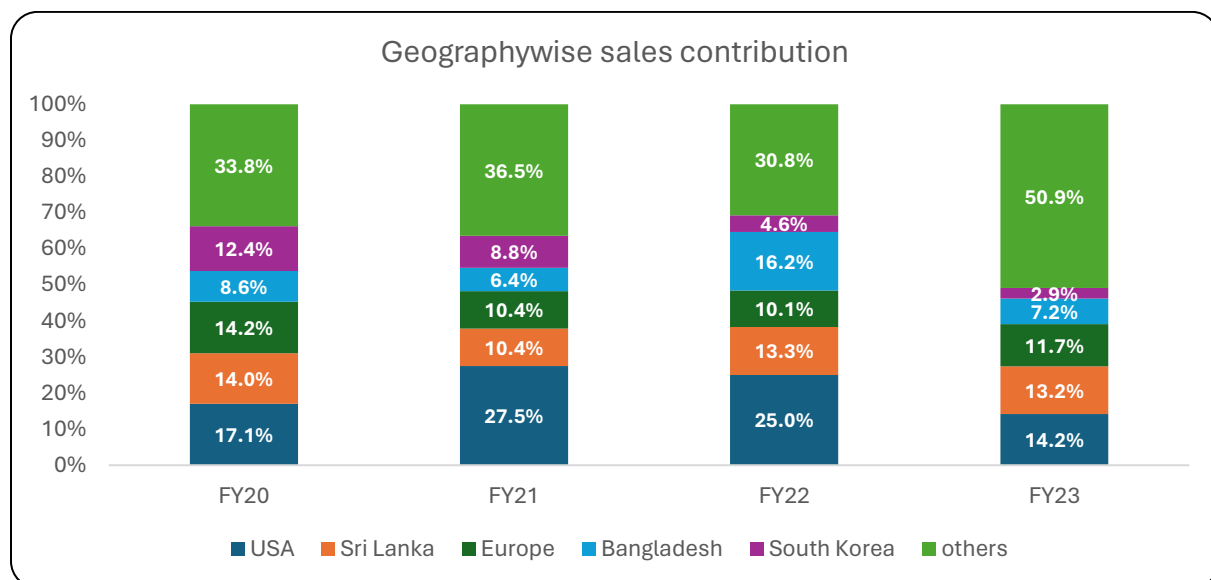
The income contribution from the various divisions for past three years ended FY23 is given below. The contribution of knitted fabric sales had declined in FY23 on account of lower export demand.



Source: Loyal Textile Mills Ltd

**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 70-80% 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 its top 10 clients accounted for 35.57% of its total sales in FY23 (43.41% in FY22). The percentage break up of geography-wise sales for the past two years ended FY23 is given below:



Source: LTM

U.S. has been the major revenue contributor and there has been a drop in orders for knitted fabrics in the recent times due to the inflation in US economy and subsequent interest rate hikes. The demand for knitted fabrics had reduced significantly in FY23 and 9mFY24 due to the slowdown in export demand in US and UK as majority of knitted fabrics goes into production of garments for exports. Hence the company had sold more yarn outside instead of consuming the same in knitting division.

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

LTM has made significant investments in windmills, to meet its power requirement. As on March 31, 2023, LTM had installed windmill capacity of 46 MW and solar power capacity of 3.3 MW. LTM draws around 40% of its power requirement from captive capacity and the remaining from third-party power purchase and IEX Exchange. In FY23, LTM has generated 6.02 crore units of wind power against 5.98 crore units in the previous year and solar power 50 lakh units against 48.68 lakh units in the previous year. In FY23, the company had also tied up purchase of solar power of 3 MW under BOOT model at the cost of ₹4.2 per unit for 10 years, post which the assets will be transferred to LTM.

#### **Moderate financial performance in FY23 and 9mFY24**

The operating income of LTM declined by 18.54% from ₹1,767.30 crore in FY22 to ₹1,411.80 crore in FY23 due to the slowdown in export demand primarily from US and EU on account of inflation and interest rate hikes. On account of higher raw material prices which could not be passed on to the customers, the PBILDT margin declined to 3.42% in FY23 from 11.59% in FY22, resulting in profit after tax (PAT) of ₹1.23 crore in FY23 as against ₹91.26 crore in FY22. Due to prolonged slowdown in 9mFY24, the company reported income of ₹769.27 crore, y-o-y drop of 29% over 9mFY23. The company reported cash losses of ₹25.4 crore in 9mFY24 against cash profit of ₹28.42 crore in 9mFY23. CARE Ratings expects the profitability of LTM to be stressed in the near term owing to the lower orders in knitted fabrics, coupled with the high-priced raw material inventory held by the company.

#### **Moderate capital structure and debt coverage metrics**

LTM does not have any long-term debt obligations. However, due to working capital intensive nature of operations, the overall gearing stood moderate at 2.14 as on September 30, 2023 (1.99x as on March 31, 2023). While interest coverage declined from 6.69x in FY22 to 2.11x in FY23, the total debt/ GCA had moderated to 17.64x as on March 31, 2023 from 4.86x as on March 31, 2022. In 9mFY24, the debt coverage metrics further moderated with cash losses and interest coverage declined below unity.

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

Cotton, the key raw material, has exhibited high volatility in prices in the past and in turn impacts the profitability of the company. The prices of cotton and yarn are governed by various factors such as area under cultivation, monsoon, export quota by Government and international demand-supply situation, among others. After recording a peak of around ₹1 lakh per candy (₹280/kg) in FY23, domestic cotton prices corrected with the arrival of the new crop, and they are currently hovering around ₹60,000-62,000 per candy. Despite the reduction in cotton prices, CARE Ratings notes that LTM still holds the high-priced cotton procured over past one year and expects this to exert pressure on profitability in the near term.

#### **Industry outlook**

In FY23, Indian cotton yarn exports faced challenges due to the disparity between domestic and international cotton prices, affecting India's global competitiveness. The global demand slowdown resulting from high inflation and recessionary pressures in developed economies, such as the USA and the European Union, further impacted the industry. Retailers with excess inventories deferred new orders for home textiles and ready-made garments (RMG), negatively impacting the demand for cotton yarn.

The textile and apparel sector is facing uncertainty and challenges in demand and operational profitability. Global inflation, Russia-Ukraine war, simmering China-Taiwan crisis and supply disruptions are hurting economic growth worldwide, leading to poor demand. Capacity utilisation has dropped across the textile value chain, especially for yarn and fabric, since the mid of FY23. As the US economic growth slows down, consumers have turned more cautious about discretionary spending on clothing to prioritise other necessities.

Over last few years, the Government of India has launched various other initiatives to promote textile and apparel industry such as production linked incentive (PLI) scheme for technical textiles and man-made fibre (MMF), setting up of seven PM Mega Integrated Textile Region and Apparel (PM MITRA) parks in greenfield/brownfield sites and implementing Textile Cluster Development Scheme (TCDS) from 2021-22 to 2025-26. The government has also approved continuation of Scheme for Rebate of State and Central Taxes and Levies on Export of Garments and Made-ups (RoSCTL scheme) up to March 2024 to boost export competitiveness of Indian apparel and made-ups. The government has removed anti-dumping duty (ADD) on purified terephthalic acid (PTA), viscose staple fibre (VSF), and acrylic to promote exports in MMF sector.

**Liquidity:** Adequate

The liquidity of the company is adequate characterised by NIL term loan obligations and moderate cash balance of ₹3.45 crore as on March 31, 2023. The company maintains raw material inventory of around 90 to 120 days and finished goods for less than 25 days. However, the inventory increased to 166 days in H1FY24 from 85 days in FY22 due to slow movement of finished goods and high-priced raw material inventory stock. 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 low. The average fund-based working capital utilisation stood moderate at around 85.17% for the 12 months ended February 2024. The company utilises LC for import of raw material and the LC limits are utilised at an average of around 89.09% in the past 12 months ended February 2024. The current ratio stood low at 0.93 as on Sep 30, 2023 due to higher working capital borrowings.

**Assumptions/Covenants:** Not applicable

**Environment, social, and governance (ESG) risks:** Not Applicable

**Applicable criteria**

[Policy on default recognition](#)  
[Financial Ratios – Non financial Sector](#)  
[Liquidity Analysis of Non-financial sector entities](#)  
[Rating Outlook and Credit Watch](#)  
[Short Term Instruments](#)  
[Cotton Textile](#)  
[Manufacturing Companies](#)

**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 the year 1956. Valli M Ramaswami is the Chairperson and the daily operations of the company 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 of its income from exports which forms 48% of total income in FY23 (FY22: 74%) and has a diversified clientele spread 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 around 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, 2023.

**Financial performance - Loyal Textile Mills Limited (Standalone)**

(₹ crore)

For the period ended / as at March 31,	2021 (12m, A)	2022 (12m, A)	2023 (12m, A)	9MFY24 (9m, UA)
<b>Working Results</b>				
Total Operating income	1,121.8	1,767.4	1,411.8	769.3
PBILDT	108.0	195.1	48.3	11.5
Interest	35.0	29.6	40.5	36.9
Depreciation	43.1	37.0	36.6	28.5
PBT	33.0	131.0	1.0*	(53.9)
PAT (after deferred tax)	27.5	91.3	1.2	(34.3)
Gross Cash Accruals	67.0	126.9	37.5	(25.4)
<b>Financial Position</b>				
Equity Capital	4.8	4.8	4.8	4.8



For the period ended / as at March 31,	2021 (12m, A)	2022 (12m, A)	2023 (12m, A)	9MFY24 (9m, UA)
Networth	248.9	336.7	332.7	NA
Total capital employed	796.6	958.8	1007.9	NA
<b>Key Ratios</b>				
<b>Growth</b>				
Growth in Total income (%)	1.57	57.55	-20.13	NA
Growth in PAT (after deferred tax) (%)	NM	231.73	-98.65	NA
<b>Profitability</b>				
PBILDT/Total Op. income (%)	9.63	11.04	3.42	1.50
PAT (after deferred tax)/ Total income (%)	2.45	5.16	0.09	(2.54)
ROCE (%)	14.12	22.69	3.94	NA
<b>Solvency</b>				
Debt Equity ratio (times)	0.21	-	-	NA
Overall gearing ratio(times)	2.13	1.80	1.99	NA
Interest coverage(times)	1.85	5.33	1.19	0.31
Term debt/Gross cash accruals (years)	0.79	-	-	NA
Total debt/Gross cash accruals (years)	7.91	3.32	17.64	NA
<b>Liquidity</b>				
Current ratio (times)	0.88	1.02	0.95	NA
Quick ratio (times)	0.51	0.53	0.38	NA
<b>Turnover</b>				
Average collection period (days)	63	56	66	NA
Average inventory (days)	103	85	131	NA
Average creditors (days)	36	31	46	NA
Operating cycle (days)	131	110	152	NA

A: Audited; UA: Unaudited; NM: Not Meaningful; NA: Not Available; Note: 'the above results are latest financial results available'

\*includes non-operating income of Rs.17.20 crore towards Insurance claim received for fire accident that took place in a weaving unit in March 2022, miscellaneous income of Rs.7.43 crore.

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

Not Applicable

**Any other information:**

Not Applicable

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

**Details of rated facilities:** Please refer to Annexure-3

**Complexity level of various instruments rated:** Please refer to Annexure 4

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in 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 along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	4.00	CARE BBB; Stable
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; Stable / 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+ (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+ (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+ (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+ (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; Stable	-	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; Stable / CARE A3	-	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: Details of Rated facilities

#### 1. Long Term Facilities

##### 1.A. Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (₹ crore)	Remarks
1.	Indusind Bank Ltd.	4.00	WC DL of Rs.4 crore
	<b>Total</b>	<b>4.00</b>	

**Total Long Term Facilities: ₹4.00 crore**

#### 2. Short Term Facilities

##### 2.A. Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (₹ crore)	Remarks
1.	IDBI Bank Ltd.	75.00	Includes sublimit of FBD/ FBN/ CC/ WC DL/ LC/ BG
2.	State Bank of India	40.00	Includes sublimit of CC Rs. 20 crores
	<b>Total</b>	<b>115.00</b>	

PCFC-Packing Credit in Foreign Currency/EPC-Export Packing Credit/FBD-Foreign Bill Discounting;CC-Cash Credit;FBD-Foreign Bill Discounting

##### 2.B. Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (₹ crore)	Remarks
1.	Central Bank of India	150.00	Includes sublimit of EBP/EBD of Rs. 10 crores & standby PC of Rs.20 crore (for Gold card holder)
2.	Karur Vysya Bank Ltd.	40.00	PCFC (Includes sublimits of PCL/PCFC Rs. 25 crore, FBN Rs.15 crore)
	<b>Total</b>	<b>190.00</b>	

PCFC- Packing Credit in Foreign Currency;ILC/FLC- Inland letter of credit/Foreign letter of credit; FBP/EBD-Foreign Bill Purchase/Export Bill Discounting

##### 2.C. Non-Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (₹ crore)	Remarks
1.	Indusind Bank Ltd.	66.00	Includes sublimit of CC of Rs. 2.5 crores, EPC/PCFC of Rs.15 crores, Bill Discounting of Rs.15 crores, forward cover of Rs.30 crores.
2.	Central Bank of India	2.00	BG
	<b>Total</b>	<b>68.00</b>	

LC- Letter of Credit; BG-Bank Guarantee

##### 2.D. Non-Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (₹ crore)	Remarks
1.	Central Bank of India	60.00	Includes sublimit of import/Inland (DA Usance upto 180 days) of Rs.5 crores.
2.	State Bank of India	30.00	LC
	<b>Total</b>	<b>90.00</b>	



LC- Letter of Credit; CC-Cash Credit; BD-Bill Discounting

**Total Short Term Facilities : ₹463.00 crore**

### 3. Long Term / Short Term Facilities

#### 3.A. Fund Based / Non Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (₹ crore)	Debt Repayment Terms
1.	HDFC Bank Ltd.	125.00	CC/PC/POSTSHIPMENT/LC
	<b>Total</b>	<b>125.00</b>	

**Total Long Term / Short Term Facilities : ₹125.00 crore**

**Total Facilities (1.A+2.A+2.B+2.C+2.D+3.A) : ₹592.00 crore**

#### Annexure-4: Complexity level of various 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

**Note on complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

#### Annexure-5: Detailed explanation of covenants of the rated instruments/facilities

Not Applicable

## Contact us

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### 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.

## CONTACT

### CARE Ratings Ltd.

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## REGIONAL OFFICES

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**Annexure II**  
**Press Release**  
**Loyal Textile Mills Limited**

Facilities/Instruments	Amount (₹ crore)	Rating <sup>2</sup>	Rating Action
Long term bank facilities	4.00	CARE BBB; Stable	Revised from CARE BBB+; Stable
Long-term / Short-term bank facilities	125.00	CARE BBB; Stable / CARE A3	Revised from CARE BBB+; Stable / CARE A3+
Short-term bank facilities	463.00	CARE A3	Revised from CARE A3+

Details of instruments/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 decline in financial performance following slowdown in export demand coupled with higher raw material prices, resulting in cash losses in 9mFY24 (refers to the period April 1 to March 31). Ratings continue to derive strength from LTM's long track record spanning more than seven decades, vertically integrated nature of operations, benefits derived from diverse and niche offerings within each product category, and a geographically widespread clientele. However, ratings continue to be constrained by LTM's moderate capital structure as well as the working capital-intensive nature of operations marked by high utilization on working capital debt and moderate current ratio. Ratings are also constrained by susceptibility of profit margins to the volatile raw material prices and cyclical nature of the textile industry.

### 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 offtake by customers leading to elongated working capital cycle above 200 days on sustained basis.

**Analytical approach:** Standalone

#### Outlook: Stable

The 'stable' outlook reflects that the company is expected to maintain its capital structure with absence of large debt-funded capex plans. CARE Ratings Limited (CARE Ratings) expects LTM to sustain its healthy relationship with the customers aided by its long-standing track record of operations.

### Detailed description of the key rating drivers:

#### Key strengths

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

Founded in the year 1956 by Late Karumuttu Thiagaraja Chettiar, LTM is one of the oldest integrated textile mills in south India, having more than seven decades of track record. It has an established presence, both in international and domestic markets. LTM has three ginning factories integrated with four spinning mills located in Kovilpatti, Satur, Arasanur and Naidupet having a combined capacity to produce 85,000 kg of yarn per month. Around 75% of the 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 around 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 various 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, Sateen, Satin, Stripe Sateen, Dobby design, Rib stop, Herringbone 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, Terry, Fleece, Pique, Collar and Cuff 20" to 36" dia with 220 knitting machines.

##### Geographically-diversified customer base

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

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 70-80% 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 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, 2023, LTM has an installed windmill capacity of 46 MW and solar power capacity of 3.3 MW. LTM draws around 40% of its power requirement from captive capacity.

#### **Key weaknesses**

##### **Moderate financial performance in FY23 and 9mFY24**

The operating income of LTM declined by 18.54% from ₹1,767.30 crore in FY22 to ₹1,411.80 crore in FY23 due to the slowdown in export demand. On account of higher raw material prices, the profit before interest, lease rentals, depreciation and tax (PBILDT) margin declined to 3.42% in FY23 from 11.59% in FY22. Due to prolonged slowdown in 9mFY24, the company reported income of ₹769.27 crore, y-o-y drop of 29% over 9mFY23. The company reported cash losses of ₹25.4 crore in 9mFY24 against cash profit of ₹28.42 crore in 9mFY23. CARE Ratings expects the profitability of LTM to be stressed in the near term owing to the lower orders in knitted fabrics, coupled with the high-priced raw material inventory held by the company.

##### **Moderate capital structure and debt coverage metrics**

LTM does not have any long-term debt obligations. However, due to working capital intensive nature of operations, the overall gearing stood moderate at 2.14 as on September 30, 2023 (1.99x as on March 31, 2023). While interest coverage declined from 6.69x in FY22 to 2.11x in FY23, the total debt/ gross cash accrual (GCA) had moderated to 17.64x as on March 31, 2023 from 4.86x as on March 31, 2022. In 9mFY24, the debt coverage metrics further moderated with cash losses and interest coverage also declined below unity.

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

Cotton, the key raw material, has exhibited high volatility in prices in the past and in turn impacts the profitability of the company. The prices of cotton and yarn are governed by various factors such as area under cultivation, monsoon, export quota by Government and international demand-supply situation, among others. After recording a peak of around ₹1 lakh per candy in FY23, domestic cotton prices corrected with the arrival of the new crop. Despite the reduction in cotton prices, CARE Ratings notes that LTM still holds the high-priced cotton procured in FY23 and expects this to exert pressure on profitability in the near term.

#### **Liquidity: Adequate**

The liquidity of the company is adequate characterised by NIL term loan obligations and moderate cash balance of ₹3.45 crore as on March 31, 2023. The company maintains raw material inventory of around 90 to 120 days and finished goods for less than 25 days. However, the inventory increased to 166 days in H1FY24 from 85 days in FY22 due to slow movement of finished goods and high-priced raw material inventory stock. The credit period given by LTM varies up to 60 days. Most of the export credits are backed by letter of credit (LCs); hence, the risk on receivables remains low. The average fund-based working capital utilisation stood moderate at around 85.17% for the 12 months ended February 2024. The company utilises LC for import of raw material and the LC limits are utilised at an average of around 89.09% in the past 12 months ended February 2024. The current ratio stood low at 0.93 as on September 30, 2023 due to higher working capital borrowings.

**Assumptions/Covenants:** Not applicable

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

#### **Applicable criteria**

- [Policy on default recognition](#)
- [Financial Ratios – Non financial Sector](#)
- [Liquidity Analysis of Non-financial sector entities](#)
- [Rating Outlook and Credit Watch](#)
- [Short Term Instruments](#)
- [Cotton Textile](#)
- [Manufacturing Companies](#)

#### **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 & woven fabrics and garments. LTM is the flagship company of the Loyal group, founded by Late Karumuttu Thiagaraja Chettiar in the year 1956. Its 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 around 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, 2023.

Brief Financials (₹ crore)	31-03-2022 (A)	31-03-2023 (A)	9mFY24 (UA)
<b>Total operating income</b>	1,767.4	1,411.8	769.3
<b>PBILD</b>	195.1	48.3	11.5
<b>PAT</b>	91.3	1.2	(34.3)
<b>Overall gearing (times)</b>	1.80	1.99	NA
<b>Interest coverage (times)</b>	5.33	1.19	0.30

A: Audited UA: Unaudited; NA: Not Available; Note: 'the above results are latest financial results available'

#### Status of non-cooperation with previous CRA:

Not Applicable

#### Any other information:

Not Applicable

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

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated:** Please refer to Annexure-4

**Lender details:** Please refer to 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 along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	4.00	CARE BBB; Stable
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; Stable / 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)	Date(s) and Rating(s)	Date(s) and Rating(s)	Date(s) and Rating(s)



					assigned in 2024-2025	assigned in 2023-2024	assigned in 2022-2023	assigned in 2021-2022
1	Fund-based - ST-EPC/PSC	ST	115.00	CARE A3	-	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+ (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+ (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+ (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; Stable	-	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; Stable / CARE A3	-	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 the rated instruments/facilities:

Not Applicable

### Annexure-4: Complexity level of various 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 the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

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### 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.

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