

Press Release

Compact Spinners India Private Limited

December 12, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs.5.60 Cr.
Long Term Rating	SMERA BB/ Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned a long term rating of '**SMERA BB**' (**read as SMERA double B**) on the Rs. 5.60 crore bank facilities of Compact Spinners India Private Limited (CSIPL). The outlook is '**Stable**'

CSIPL is a Dindigul based company established in the year 2004 by Mr. A. Chockalingam, Mrs. Neela Chockalingam, and Mr. Neela Chockalingam, among others. The company is engaged in the manufacture of cotton yarn of count ranging 40s to 60s which is used to manufacture fabric for readymade garments. The company's manufacturing unit is located at Dindigul district, Tamil Nadu with an installed capacity of 14,920 spindles. The company is on course to add further capacity of around 11,000 spindles along with humidification equipment which is expected to commence operations from March 2018. CSIPL has a client concentration in Maharashtra and procures raw material, i.e. cotton, from various traders located in Karnataka, Telangana and Maharashtra.

Key rating drivers

Strengths

- **Established track record of operations and experienced Management**

CSIPL has an established presence in the cotton yarn manufacturing business of more than a decade, leading to long standing relations with its customers and suppliers. Further, the company also benefits from its experienced and qualified Management. The Managing Director of the company Mr. P. Venkatachalam has completed Diploma in Textile Technology and possesses more than three decades of experience in the textile industry including in spinning and weaving sub segments.

- **Moderate financial risk profile**

The financial risk profile of the company is moderate, marked by tangible net worth of Rs. 6.52 crore as on 31 March, 2017 as compared to Rs. 5.52 crore in the previous year. The improvement in net worth as on 31 March, 2017 is due to retained earnings and capital infusion. Further, gearing stood at 1.01x times as on March 31, 2017 compared to 1.10x times as on March 31, 2016. The total debt of Rs. 6.57 crore includes long term borrowings of Rs. 2.97 crore and short term borrowings of Rs. 3.60 crore as on 31 March, 2017. The interest coverage ratio (ICR) stood at 3.72 times and debt service coverage ratio (DSCR) stood at 0.87x times in FY2017.

Further, the debt funded capacity expansion plan undertaken during FY2017-18 is not expected to adversely impact the financial risk profile of the company. Going forward, SMERA expects the financial risk profile to improve on account of improvement in net worth and repayment of long term borrowings.

- **Comfortable liquidity position**

CSIPL operates on a comfortable working capital cycle which stood at 63 days in FY2017 as against 57 days in the previous year. The stretch in working capital cycle in FY2017 is attributable to the significant expansion in inventory days at 54 vis-a-vis 37 days in the previous year. The reason for stretched inventory days during FY2017 is due to major year-end purchases. However, the liquidity position of the company is comfortable as the average cash credit limit utilisation stood at ~81 percent during the last six months ended 31st October, 2017.

Weaknesses

- **Modest scale of operations**

CSIPL operates on a modest scale with an operating income of Rs.27.09 crore in FY2017 compared to Rs.25.38 crore in the previous year. The company is not able to report sizable revenue growth due to its limited installed operational capacity. However, going forward the company is expected to report moderate growth in revenue due to the capacity addition undertaken (additional capacity to commence operations by FY2018-end) wherein the installed capacity would increase from 14,920 spindles to 25,920 spindles. Further, as informed by the Management, the company has reported an operating income of Rs. 16.66 crore (provisional) during the period from April 2017 to October 2017.

- **Declining trend of operating profitability**

CSIPL is reflecting a declining trend in operating profitability which stood at 7.74 percent in FY2017 as against 8.69 percent in the previous year. The decline in profitability is mainly on account of increase in raw material cost as percentage of total sales, which stood at ~65 percent in FY2017 as compared to ~62 percent in the previous year. The company is not able to pass on the increase in raw material prices to its customers due to competitive intensity rendering limited bargaining power. The price of its key raw material – cotton, depicts a highly volatile trend as it's significantly dependent on monsoon and government regulations (Minimum Support Price (MSP)). Hence, any adverse movement in cotton prices can significantly impact the profitability of the company.

- **Concentrated customer base**

CSIPL is exposed to customer concentration risk as the company derives around 99 percent of its revenue from only two customers i.e. Maheshwari Agencies and Meenakshi Yarn Corporation. However, the company has long standing relation with these customers and has been receiving repeated orders from them over the years.

- **Highly competitive and fragmented Industry**

CSIPL operates in the highly competitive cotton industry with several unorganized players which limits its bargaining power.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of the company.

Outlook - Stable

SMERA believes that CSIPL will retain its stable outlook on account of the extensive experience of its Management and established operational track record in the cotton spinning industry. The outlook may be revised to 'Positive' in case the company registers substantial growth in revenue and profitability while maintaining comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' in case of substantial decline in its net cash accruals and deterioration in the

financial risk profile due to debt-funded capital expenditure or higher than expected working capital borrowings.

About the Rated Entity - Key Financials

For FY2017, CSIPL reported profit after tax (PAT) of Rs. 0.61 crore on operating income of Rs.27.09 crore compared with PAT of Rs.0.50 crore on operating income of Rs.25.38 crore for FY2016. The tangible networth of the company stood at Rs. 6.52 crore as on 31 March, 2017 as against Rs. 5.52 crore in the previous year.

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smerra.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument:

<https://www.smerra.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

None

Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Open Cash Credit	Not Applicable	Not Applicable	Not Available	3.00	SMERA BB/Stable
Term Loan-I	Not Applicable	Not Applicable	Not Available	0.08	SMERA BB/Stable
Term Loan-II	Not Applicable	Not Applicable	Not Available	0.72	SMERA BB/Stable
Term Loan-III	Not Applicable	Not Applicable	Not Available	0.52	SMERA BB/Stable
Term Loan-III	Not Applicable	Not Applicable	Not Available	1.28	SMERA BB/Stable

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