

Press Release

Chandan Textiles

16 April, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 8.30 Cr.
Long Term Rating	SMERA B-/ Outlook: Stable

** Refer Annexure for details*

Rating Rationale

SMERA has assigned the long term rating of '**SMERA B-'** (read as **SMERA B minus**) on the Rs. 8.30 crore bank facilities of Chandan Textiles. The outlook is '**Stable**'.

Chandan Textiles (CT) is a Bangalore based proprietorship firm established in the year 2000 by Mr. Chandan Malhotra. The firm is engaged in the business of manufacturing and trading of pure silk fabrics like chiffon, georgette and crape. It caters all over India but major customers are in Karnataka state. CT procures its raw materials locally and imports from China as well. It has two manufacturing units in Karnataka with total installed capacity of 550000 meters for fabric and 12000 Kgs for twisted silk yarn.

Key rating drivers

Strengths

Established track record of operation and experienced management:

The firm was established in 2000 and since then it is engaged in the business of manufacturing and trading of pure silk fabrics like chiffon, georgette and crape. Mr. Chandan Malhotra, proprietor of the firm has experience of more than two decades in textile sector.

Proximity to raw material:

CT is located in Bangalore (Karnataka), which is one of the major silk producing place in Karnataka. Hence proximity to raw materials.

Weaknesses

Modest scale of operation:

CT has modest scale of operations with operating income of Rs. 28.15 crore in FY 2016-17 and Rs.23.68 crore in FY 2015-16. Further, it has reported Rs. 33.90 crore in FY 2017-18 (Provisional).

Below Average financial risk profile:

The financial risk profile of the firm is below average marked by low Networth of Rs. 2.89 crore in FY 2017 as against Rs. 2.84 crore in FY 2016. The gearing (debt to equity ratio) which stood

high at 3.66 times as on 31st March, 2017 as against 3.02 times in the previous year. The total debt of Rs. 10.57 crore includes long term loans from bank of Rs. 2.46 crore, unsecured loans from promoter of Rs. 2.91 crore and working capital funds of Rs. 5.20 crore. Interest coverage ratio (ICR) stood moderate at 1.48 times for FY 2017 as against 1.39 times in the previous year. TOL/TNW stood at 4.71 times in FY 2017 as against 3.79 times in FY 2016. NCA/TD stood at 0.06 times in FY 2017 as against 0.05 times in FY 2016.

Profitability is susceptible to volatility in raw material prices:

Silk prices are highly regulated by government through MSP (Minimum Support Price). However, the purchase and selling price depends on the prevailing demand-supply situation restricting bargaining power with the suppliers and customers. Any adverse movement of silk prices further impacts the profitability.

Working capital intensive operations and stretched liquidity:

The operations of the firm is working capital intensive marked by gross current assets (GCA) stands at 124 days in FY2017 and 83 days in FY2016. This was on account of high inventory holding period and receivables which stood at 53 days and 64 days in FY 2017 respectively as against 27 days and 55 days in FY 2016 respectively. The cash credit limit is fully utilised in last six months ended 31st December, 2017. Further, there are instances of overdrawings in cash credit account every month.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of Chandan Textiles to arrive at the rating.

Outlook – Stable

SMERA believes CT will maintain a stable business risk profile in the medium term on account of its experienced management. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues and increase in operating margin. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability, or in case of deterioration in the company's financial risk profile or higher than expected working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	28.15	23.68	19.68
EBITDA	Rs. Cr.	1.66	1.45	1.07
PAT	Rs. Cr.	0.08	0.16	0.04
EBITDA Margin	(%)	5.88	6.11	5.46
PAT Margin	(%)	0.29	0.66	0.18
ROCE	(%)	10.74	11.15	8.28
Total Debt/Tangible Net Worth	Times	3.66	3.02	3.07
PBDIT/Interest	Times	1.48	1.39	1.36
Total Debt/PBDIT	Times	5.69	5.53	7.25
Gross Current Assets (Days)	Days	124	83	81

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

ICRA, vide release dated October 17, 2017 – “ICRA has moved the ratings for the Rs. 6.30 crore bank facilities of Chandan Textiles to the ‘Issuer Not Cooperating’ category. The rating is now denoted as “[ICRA] B (Stable) ISSUER NOT COOPERATING. The rating is based on no updated information on the entity’s performance since the time it was last rated in April, 2016. The lenders, investors and other market participants are thus advised to exercise appropriate caution while using this rating as the rating does not adequately reflect the credit risk profile of the entity. The entity’s credit profile may have changed since the time it was last reviewed by ICRA. However, in the absence of requisite information, ICRA is unable to take a definitive rating action. As part of its process and in accordance with its rating agreement with Chandan Textiles, ICRA has been trying to seek information from the entity so as to monitor its performance. Despite repeated requests by ICRA, the entity’s management has remained non-cooperative. In the absence of requisite information, and in line with SEBI’s Circular No. SEBI/HO/MIRSD4/CIR/2016/119, dated November 1, 2016, ICRA’s Rating Committee has taken a rating view based on the best available information.”

Any other information:

Not Applicable

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA B-/ Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	SMERA B-/ Stable (Assigned)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.30	SMERA B-/ Stable (Assigned)

Contacts:

Analytical	Rating Desk
<p>Suman Chowdhury President - SMERA Bond Ratings Tel: 022-67141107 suman.chowdhury@smera.in</p> <p>Aishwarya Phalke, Rating Analyst, Tel: +91-22-6714 1156 Email: aishwarya.phalke@smera.in</p>	<p>Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in</p>

ABOUT SMERA

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