

Press Release

Chahal Spintex Limited

May 17, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 29.00 Cr.
Long Term Rating	SMERA BB / Outlook: Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB**' (**read as SMERA BB**) and short term rating of '**SMERA A4+**' (**read as SMERA A four plus**) on the Rs.29.00 crore bank facilities of Chahal Spintex Limited. The outlook is '**Stable**'.

The Punjab-based, Chahal Spintex Limited (CSL) was incorporated in 2007. The company is engaged in ginning, pressing and spinning of cotton yarn from 24s and 40s counts. The company produces two types of yarn i.e. Combed Yarn (100% cotton of fine quality) and Carded Yarn. The manufacturing unit has installed capacity of 31200 spindles.

Key Rating Drivers

Strengths

• Experienced management

CSL is promoted by Mr. Sukhdev Singh, Mr. Gurtej Singh and Mr. Tek Singh who have been associated with the cotton industry for more than two decades. Being a family owned business, experience of the promoters has helped the company establish healthy and long standing relations with its customers and suppliers.

• Moderate financial risk profile

CSL has moderate financial risk profile marked by comfortable net worth, high gearing and modest debt protection measures. The net worth levels of the entity stood at Rs.26.26 crore as on March 31, 2018 (provisional) as compared to Rs.21.83 crore in the previous year. The gearing levels improved to 1.89 times in FY2018 (provisional) as compared to 2.19 times in FY2017. The total debt of Rs.49.58 for March 31, 2018 (provisional) consists of long term debt of Rs.10.46 crore, interest-free unsecured loans from directors/relatives of Rs.0.84 crore and short term working capital borrowings of Rs.38.28 crore. The Interest Coverage Ratio stood at 2.30 times in FY2018 (provisional) against 2.31 times in FY2017. The Net Cash Accruals to Total Debt (NCA/TD) stood at 0.11 times in FY2018 (provisional).

Weaknesses

• Working capital intensive nature of operations

The operations are working capital intensive as evident from Gross Current Assets (GCA) of 175 days in FY2018 (provisional) as compared to 177 days in FY2017 mainly dominated by high inventory holding period of 138 days in FY2018 (Provisional) against 150 days in FY2017, due to seasonality of the cotton crop. The average working capital utilization stood more than 90 percent over the past six months ending March 2018.

• Susceptible to fluctuations in cotton prices and government regulations

Raw cotton prices are highly volatile in nature and are largely depend on factors like area under

SMERA Ratings Limited

Registered Office: 102, Sumer Plaza, Marol Maroshi Road, Marol, Andheri (East), Mumbai - 400 059

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cultivation, crop yield and climatic conditions. Cotton being the major raw material of spinning mills, volatility in the prices of cotton impacts the profitability of the company. The company is also exposed to intense competition in the highly fragmented industry from organised and unorganised players.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of CSL to arrive at this rating.

Outlook: Stable

SMERA believes that the outlook of CSL will remain 'Stable' over the medium term on account of its experienced management and moderate financial risk profile. The outlook may be revised to 'Positive' if the company is able to increase its scale of operations while maintaining healthy profitability. On the contrary, the outlook may be revised to 'Negative' in a case of decline in the scale of operations resulting in decline in the revenues affecting margins and liquidity and further deterioration in the working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	126.36	128.19	121.05
EBITDA	Rs. Cr.	10.57	10.48	9.67
PAT	Rs. Cr.	0.73	0.87	0.19
EBITDA Margin	(%)	8.36	8.17	7.99
PAT Margin	(%)	0.58	0.68	0.16
ROCE	(%)	7.53	8.71	7.74
Total Debt/Tangible Net Worth	Times	1.89	2.19	1.84
PBDIT/Interest	Times	2.30	2.31	2.28
Total Debt/PBDIT	Times	4.69	4.44	4.02
Gross Current Assets (Days)	Days	175	177	110

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

CRISIL, vide its press release dated July 21, 2017 had denoted the rating of Chahal Spintex Limited (CSL) as 'CRISIL D (ISSUER NOT COOPERATING; Rating Reaffirmed)' on account of lack of adequate information required for monitoring of ratings. The earlier rating stood at 'CRISIL D (Reaffirmed)' vide its press release dated March 15, 2016.

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):

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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	SMERA BB / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	3.27	SMERA BB / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.63	SMERA BB / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.10	SMERA A4+

Contacts:

Analytical	Rating Desk
Suman Chowdhury President - SMERA Bond Ratings Tel: 022-67141107 suman.chowdhury@smera.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@smera.in
Manmיתה Sodhi Analyst - Rating Operations Tel: 022-67141133 Manmיתה.Sodhi@smera.in	.

ABOUT SMERA

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