

Press Release

Chahal Spintex Limited

June 07, 2019



Rating Update

Total Bank Facilities Rated*	Rs. 29.00 Crore
Long Term Rating	ACUITE BB / Outlook: Stable (Reaffirmed, Assigned, Withdrawn)
Short Term Rating	ACUITE A4+ (Withdrawn)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed a long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) to the Rs. 25.00 crore bank facilities of CHAHAL SPINTEX LIMITED (CSL). The outlook is '**Stable**'.

Acuité has assigned a long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) to the Rs. 4.00 crore proposed bank facilities of CHAHAL SPINTEX LIMITED (CSL).

Acuité has withdrawn the long term rating of '**ACUITE BB**' (**read as ACUITE double B**) to the Rs. 3.90 crore bank facility and the short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) to the Rs. 0.10 crore bank facility of CHAHAL SPINTEX LIMITED (CSL). The rating has been withdrawn on account of 'No Dues Certificate' received from the banker.

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 32000 spindles.

Analytical Approach

The team has taken a standalone view of the business and financial risk profile of CHAHAL SPINTEX LIMITED to arrive at this rating.

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.27.63 crore as on March 31, 2019 (provisional) as compared to Rs.26.29 crore in the previous year. The gearing levels remained stable at 1.88 times in FY2019 (provisional) as compared to 1.87 times in FY2018. The total debt of Rs.51.90 crore for March 31, 2019 (provisional) consists of long term debt of Rs.4.62 crore, interest-free unsecured loans from directors/ relatives of Rs.0.84 crore and short term working capital borrowings of Rs.45.51 crore. The interest coverage levels stood at 2.10 times in FY2019 (provisional) against 2.21 times in FY2018. The net cash accruals to total debt (NCA/TD) stood at 0.11 times in FY2019 (provisional).

Weaknesses

- **Working-capital intensive operations**

CSL's operations remained working capital intensive as evident from Gross Current Assets (GCA) of 192 days in FY2019 (provisional) as compared to 176 days in FY2018 mainly dominated by high inventory holding period of 167 days in FY2019 (Provisional) against 140 days in FY2018, due to seasonality of the cotton crop. The Average working capital utilization for the past six months stood more than 90 per cent over the past six months.

• Susceptibility 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 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 organized and unorganized players.

Liquidity Position:

CSL has moderate liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. 5.83 crore for FY2019 (Provisional) while its maturing debt obligations were Rs. 0.93 crore for the same period. The company's working capital operations are intensive marked by gross current asset (GCA) days of 192 days for FY2019 (Provisional). The working capital limit remains utilized over 90 per cent during the last 6 months period ended on March, 2019 (Provisional). The current ratio stands at 1.23 times as on 31 March 2019 (Provisional). Acuité believes that the liquidity of the company is likely to remain moderate over the medium term on account of moderate cash accrual against no major debt repayments over the medium term.

Outlook: Stable

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

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	135.47	126.38	128.19
EBITDA	Rs. Cr.	9.67	10.15	10.48
PAT	Rs. Cr.	1.34	1.12	0.87
EBITDA Margin	(%)	7.14	8.03	8.17
PAT Margin	(%)	0.99	0.89	0.68
ROCE	(%)	6.88	7.19	8.71
Total Debt/Tangible Net Worth	Times	1.88	1.87	2.19
PBDIT/Interest	Times	2.10	2.21	2.31
Total Debt/PBDIT	Times	5.25	4.78	4.44
Gross Current Assets (Days)	Days	192	176	177

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Application of Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Up to last three years)

Date	Name of the instrument/ facilities	Term	Amount (Rs. Crore)	Ratings/ Outlook
17 May, 2018	Cash Credit	Long-Term	25.00	ACUITE BB/ Stable (Assigned)
	Term Loan	Long-Term	3.27	ACUITE BB/ Stable (Assigned)
	Term Loan	Long-Term	0.63	ACUITE BB/ Stable (Assigned)
	Bank Guarantee	Short-Term	0.10	ACUITE A4+/ Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BB / Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	3.27	ACUITE BB (Withdrawn)
Term loan	Not Applicable	Not Applicable	Not Applicable	0.63	ACUITE BB (Withdrawn)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.10	ACUITE A4+ (Withdrawn)
Proposed Facilities	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BB/ Stable (Assigned)

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About Acuite Ratings & Research:

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