

Press Release

Chahal Spintex Limited

August 24, 2020



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 29.00 Cr.
Long Term Rating	ACUITE BB /Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BB** (read as **ACUITE double B**) on the Rs. 29.00 Crore bank facilities of Chahal Spintex Limited (CSL). 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 32000 spindles.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management**

Chahal Spintex Limited (CLS) was established in 2007 as a public limited company based out of Bhatinda, Punjab. CSL is promoted by Mr. Surkhdev Singh, Mr. Gurtej Singh and Mr. Tek Singh who have been associated with the company since its inception and they have amassed more than two decades of experience in the cotton industry. The company is ably assisted by an experienced second line of management. Being a family-owned business, the experience of the promoters has helped the company establish a healthy and long-standing relationship with its customers and suppliers. The promoters are able to establish a market position by continuous technology up-gradation and capacity expansion. Acuité believes that CSL will continue to benefit from its experienced management.

- **Moderate financial risk profile**

CSL financial risk profile of the company remained moderate, marked by comfortable net worth and modest debt protection metrics. The net worth of the company stood at Rs.26.80 Crore as on 31 March 2020 (Provisional) as against Rs.25.90 Crore as on 31 March 2019. The gearing level (debt-equity) stood at 1.69 times as on 31 March 2020 (Provisional) as against 2.00 times as on 31 March 2019. The total debt of Rs.45.30 Crore as on 31 March 2020 (Provisional) consists of long term debt of Rs.2.35 Crore, Unsecured loans from promoters of Rs.0.84 Crore and working capital borrowings of Rs.42.11 Crore. The interest coverage ratio (ICR) stood at 1.82 times in FY2020 (Provisional) as against 1.76 times in FY2019 due to high EBITDA during the year. NCA/TD (Net Cash Accruals to Total Debt) ratio increased to 0.10 times in FY2020 (Provisional) as against 0.08 times in FY2019. Debt to EBITDA stood at 5.08 times in FY2020 (Provisional) as against 6.13 times in FY2019. This is mainly due to high external debt during the year.

Acuité believes that the financial risk profile of CSL will remain moderate over the medium term in the absence of any major debt-funded capex plans.

- **Moderate Working-capital operations**

The working capital cycle of CSL stood moderate marked by Gross Current Assets (GCA) days of 173 for FY2020 (Provisional) as against 170 for FY2019. GCA days have increased due to high inventory as on 31 March, 2020 due to seasonality of the cotton crop. The debtors days have also increased and stood at 24

days in FY2020 (Provisional) as against 12 days in FY2019.

Acuité believes the ability of the company to manage its working capital cycle will be a key rating sensitivity.

Weaknesses

- **Decline in operating income**

Company's operating income declined by 14 percent in the FY2020 (Provisional) over FY2019. Operating Income for FY2020 (Provisional) stood at Rs.115.87 Crore as against Rs.135.45 Crore for the FY2019. The reason for the decline in operating income is the nationwide lockdown due to Covid-19 pandemic. The company had resumed its operation from April but the labor wasn't readily available. The company have booked revenue of ~Rs.7.32 Crore as of 30th June, 2020. However, the EBITDA Margins stood comfortable at 7.54 percent for FY2020 (Provisional) as against 6.07 percent in FY2019. The PAT margin stood at 0.98 percent in FY2020 (Provisional) as against -0.28 percent in FY2019.

- **Susceptibility to fluctuations in cotton prices and government regulations**

Raw cotton prices are highly volatile in nature and are largely depend on factors like the area under cultivation, crop yield and climatic conditions. Cotton is 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.

Outlook: Stable

Acuité 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.

Material Covenant

None

Rating sensitivity

- Any further decline in operating performance

Liquidity position: Stretched

Company has stretched liquidity marked by adequate net cash accruals to its maturing debt obligations. CSL generated cash accruals of Rs.4.35 Crore in FY2020 (Provisional) as against debt maturity obligation of Rs.0.13 Crore for the year. The cash accruals of the company are estimated to remain in the range of around Rs.3.30 Crore to Rs.4.80 Crore during FY2021-23 against the CPLTD in the range of Rs.0.70 Crore each year for the same period. The company's working capital operations are moderately marked by Gross Current Asset (GCA) days of 173 days in FY2020 (Provisional). However, the bank limits are fully utilized at ~96 percent for six months ending in July, 2020. The company maintains unencumbered cash and bank balances of Rs.0.21 Crore as on 31 March 2020 (Provisional). The current ratio stands at 1.13 times as on 31 March 2020 (Provisional).

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	115.87	135.45
PAT	Rs. Cr.	1.13	(0.38)
PAT Margin	(%)	0.98	(0.28)
Total Debt/Tangible Net Worth	Times	1.69	2.00
PBDIT/Interest	Times	1.82	1.76

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

CSL's rating was flagged off as Issuer not cooperating with CRISIL, through its rating rationale dated January 22, 2020. The reason provided by CRISIL is non-furnishing of information by CSL.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
June 07, 2019	Cash Credit	Long Term	25.00	ACUITE BB/Stable (Reaffirmed)
	Term Loan	Long Term	3.27	ACUITE BB (Withdrawn)
	Term Loan	Long Term	0.63	ACUITE BB (Withdrawn)
	Bank Guarantee	Short Term	0.10	ACUITE A4+ (Withdrawn)
	Proposed bank facilities	Long Term	4.00	ACUITE BB/Stable (Assigned)
May 17, 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+ (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)
Proposed bank facility	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BB/Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President - Corporate Ratings Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager – Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Aditya Singh Ratings Analyst - Rating Operations Tel: 011-49731303 aditya.singh@acuite.in	

About Acuité Ratings & Research:

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