

Press Release

Chahal Spintex Limited

August 06, 2021



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. The outlook is '**Stable**'.

About the company

The Punjab-based, Chahal Spintex Limited (CSL) was incorporated in 2007 and promoted by Mr. Sukhdev Singh, Mr. Gurtej Singh and Mr. Tek Singh. 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**

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. Acuité believes that CSL will continue to benefit from its experienced management.

- Moderate financial risk profile**

CSL has moderate financial risk profile with moderate net worth, gearing ratio and debt protection metrics. The net worth stood at Rs.26.11 crore in FY2021 (Prov) as against Rs.25.84 crore in FY2020. The gearing (debt-equity) stood at 2.08 times in FY2021 (Prov) as against 1.76 times in FY2020. The total debt of Rs.54.25 Crore as on 31 March 2021 (Prov) consists of long term debt of Rs.8.60 Crore, Unsecured loans from promoters of Rs.0.84 Crore and working capital borrowings of Rs.44.81 Crore. Total Outside Liabilities/ Total Net Worth (TOL/TNW) ratio stood high at 2.33 times in FY2021 (Prov) as against 2.04 times in FY2020. Interest coverage ratio improved to 1.69 times in FY2021 (Prov) from 1.66 times in FY2020. Net Cash Accrual/ Total Debt (NCA/TD) stood at 0.06 times in FY2021 (Prov) as against 0.07 times in FY2020. 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.

Weaknesses

- Working capital intensive operations**

The working capital operations of the company are intensive marked by Gross Current Assets (GCA) days of 242 for FY2021 (Prov) as against 194 for FY2020. The GCA days are mainly dominated by inventory holding period of 196 days for FY2021 (Prov) as against 154 days in FY2020. The company needs to keep high amount of raw material as the cost of material is cheaper in the peak season i.e. September-April as compared to off season May-September. Acuité believes that the efficient working capital management will be crucial to the CSL in order to maintain a stable credit profile.

- 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.

Rating Sensitivities

- Significant and sustained growth in operating revenues along with profitability.
- Stretched working capital cycle and deterioration in liquidity position.

Material Covenant

None

Liquidity Position: Adequate

CSL has adequate liquidity marked by adequate net cash accruals as compared to maturing debt obligations. The firm generated cash accruals of Rs.3.12-4.10 crore during the last three years through FY2021 against maturing debt obligations of Rs.0.47-1.06 crore over the same period. The firm's working capital operations are intensive marked by Gross Current Asset (GCA) days of 242 in FY2021 (Prov). The firm maintains unencumbered cash and bank balances of Rs. 0.27 crore as on March 31, 2021 (Prov). The current ratio of the firm stood moderate at 1.33 times as on March 31, 2021 (Prov). Acuité believes that the liquidity is likely to remain adequate over the medium term due to improvement in scale of operations and net cash accruals.

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.

About the Rated Entity Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	109.29	116.02
PAT	Rs. Cr.	0.48	0.04
PAT Margin	(%)	0.44	0.03
Total Debt/Tangible Net Worth	Times	2.08	1.76
PBDIT/Interest	Times	1.69	1.66

Status of non-cooperation with previous CRA

CSL's rating was flagged 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

None

Applicable Criteria

- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.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
24-Aug-20	Cash Credit	Long term	25.00	ACUITE BB/Stable (Reaffirmed)
	Proposed Bank Facility	Long term	4.00	ACUITE BB/Stable (Reaffirmed)
07-Jun-19	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 Facility	Long Term	4.00	ACUITE BB/Stable (Assigned)
17-May-18	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

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Punjab National Bank	Cash Credit	Not Available	Not Available	Not Available	25.00	ACUITE BB/Stable (Reaffirmed)
Not Applicable	Proposed Bank Facility	Not Available	Not Available	Not Available	4.00	ACUITE BB/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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