

## Press Release

### Chahal Spintex Limited

October 10, 2022



### Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	29.00	ACUITE BB   Stable   Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	29.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

### Rating Rationale

Acuite 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**'.

#### Rationale for Reaffirmation

The rating on CSL takes into account the growth expected in the operating income and stability in operating margins over the medium term. The rating is supported by the experienced management, long track record of operations. These strengths are, however, partly offset by the intensive working capital operations.

#### 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

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

##### Revenue and profitability

CSL reported operating income of Rs. 131.49Cr in FY2022 as against Rs. 107.82 Cr in FY2021 on the back of recovery in demand post Covid interruptions. Decline in EBITDA margin minuscule and stood at 6.41% in FY22 in comparison to 7.60% in FY21. Further, Net Profit margin improved by 5 times and stood at 2.23% in FY2022 as against 0.53% in FY 2021. PAT Margin increased due to lower interest in FY22 in comparison to FY21.

CSL has achieved Operating income of Rs. ~51 Cr. during first five months of FY 23

### **Financial Risk Profile**

CSL has moderate financial risk profile marked by moderate net worth and moderate debt protection metrics. CSL's net worth improved on account of profit accretions and stood at Rs. 28.91 Cr as on 31st March 2022 as against Rs. 26.20 Cr as on 31st March 2021 (Audited). Company has moderate financial position, Gearing levels (debt-to-equity) stood at 1.94 times as on March 31, 2022 as against 2.07 in FY 2021. Improvement in Gearing Ratio in FY22 is on account of profit accretions.

Further, the interest coverage ratio stood comfortable at 2.19 times for FY2022 as against 1.70 times in FY2021. Debt Service coverage ratio declined and stood moderate at 1.06 times for FY2022 as against 1.51 times in FY2021. Total outside liabilities to total net worth (TOL/TNW) stood at 2.00 times as on FY2022 vis-à-vis 2.34 times as on FY2021. However, Debt-EBITA stood at 6.52 times as on 31st March 2022 as against 6.54 times as on 31st March 2021.

### **Weaknesses**

#### **Working capital operations**

Company has improved yet intensive working capital requirements as evident from gross current assets (GCA) of 200 days in FY2022 as compared to 247 days in FY2021. Debtor days stood at 24 days with no change. Inventory days have reduced to 156 days in FY2022 as against 200 days in FY2021. The working capital limits are utilized at ~95 per cent during the last Six months ended August 22. Further, the current ratio of CSL stood at 1.37 times as on March 31, 2022.

#### **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 covenants**

None

### **Liquidity Position**

#### **Adequate**

CSL has adequate liquidity marked by net cash accruals to its maturing debt obligations. Firm generated cash accruals of Rs. 3.69 crore for FY2022 as against obligations of Rs. 3.29 crores for the same period. Current Ratio stood at 1.37 times as on 31 March 2022 as against 1.32 times in the previous year. Bank Limit utilization in last six months was ~95% curbing the cushion for company to meet contingencies. Therefore, firm has adequate liquidity to meets its requirements.

### **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.

## Other Factors affecting Rating

None

## Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	131.49	107.82
PAT	Rs. Cr.	2.93	0.57
PAT Margin	(%)	2.23	0.53
Total Debt/Tangible Net Worth	Times	1.94	2.07
PBDIT/Interest	Times	2.19	1.70

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

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

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
06 Aug 2021	Proposed Bank Facility	Long Term	4.00	ACUITE BB   Stable (Reaffirmed)
	Cash Credit	Long Term	25.00	ACUITE BB   Stable (Reaffirmed)
24 Aug 2020	Proposed Bank Facility	Long Term	4.00	ACUITE BB   Stable (Reaffirmed)
	Cash Credit	Long Term	25.00	ACUITE BB   Stable (Reaffirmed)
07 Jun 2019	Bank Guarantee	Short Term	0.10	ACUITE A4+ (Withdrawn)
	Term Loan	Long Term	0.63	ACUITE BB (Withdrawn)
	Cash Credit	Long Term	25.00	ACUITE BB   Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	4.00	ACUITE BB   Stable (Assigned)
	Term Loan	Long Term	3.27	ACUITE BB (Withdrawn)
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+ (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BB   Stable   Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BB   Stable   Reaffirmed

## Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 <a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a>  Himanshu . Senior Analyst-Rating Operations Tel: 022-49294065 <a href="mailto:himanshu.mehta@acuite.in">himanshu.mehta@acuite.in</a>	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>

### About Acuité Ratings & Research

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