

Press Release

Chenduran Cotspin India Private Limited

February 13, 2020



Rating Upgraded

Total Bank Facilities Rated	Rs. 42.00 crore
Long Term Rating	ACUITE BBB-/ Stable (Upgraded)
Short Term Rating	ACUITE A3 (Upgraded; Assigned)

Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE BBB-**' (**read as ACUITE triple B minus**) from '**ACUITE BB+**' (**read as ACUITE double B plus**) on the 40.80 crore bank facilities and the short term rating to '**ACUITE A3**' (**read as ACUITE A three**) from '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs. 1.00 crore bank facilities of Chenduran Cotspin India Private Limited. The outlook is '**Stable**'.

Further, Acuité has assigned the short term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the Rs. 0.20 bank facilities of Chenduran Cotspin India Private Limited.

The rating was downgraded to ACUITE BB+ from ACUITE BBB- vide rationale dated December 16, 2019. The downgrade was on account of information risk as the issuer was non-cooperative during the review process. However, the company has now co-operated with Acuité in furnishing information for the review process.

About the company:

Chenduran Cotspin India Private Limited (CIPL) was incorporated as a Private Limited company in 1991. The company was started by Mr. P. Govindasamy who is having an experience of over three decades in the textile industry. The day to day operations are managed by his sons K. G. Senthil Kumar P. G. Ramesh and Mr. P. G. Balaji who are on the board of the company. CIPL is engaged in manufacturing of cotton and polyester yarn blend with counts ranging from 20s to 60s. The company's spinning unit is located in Dindigul, Tamilnadu and operates with an installed capacity of 34,656 spindles. The company has installed wind mills with capacity of 4.9 MW as on December 31, 2019.

Analytical Approach

Acuité has considered the consolidated business and financial risk profile of Chenduran Cotspin India Private Limited and Elkaypee Spinners Private Limited (hereinafter referred to as 'The group') as both the entities are engaged in same line of business, common promoters and management.

Extent of Consolidation: Full

Key Rating Drivers

Strengths

- Experienced management and established presence in industry**

The group is engaged in spinning of blended yarn (cotton and polyester) ranging in the count of 20s to 60s. The group is promoted by Mr. P. Govindasamy, who has around three decades of experience in the textile industry. The day-to-day operations are managed by his sons Mr. K. G. Senthil Kumar, Mr. P. G. Ramesh and Mr. P. G. Balaji. The group was started in 1991 and has gradually expanded to the present total capacity of 66,384 spindles at its plants in Dindigul. The units are located in textile hub of Erode, Coimbatore and Tirupur. The promoter's experience in textile industry has helped the group build healthy relationship with its suppliers and customers, to ensure a steady raw material supply and large offtake.

Acuité believes that the group's growth prospects will be supported by management's extensive experience in textile industry.

- **Moderate financial risk profile**

The group's financial risk profile is supported by healthy capital structure and debt protection metrics. The group is levered at 1.1 times as on March 31, 2019 (1.1 times as on March 31, 2018). The group's capital structure is supported by infusion of funds by promoters and relatives in the form of unsecured loans to the tune of Rs. 24.8 crore of which Rs. 21.8 crore is subordinated to bank borrowings. As on March 31, 2019, the group's networth (includes subordinated unsecured loans of Rs. 21.8 crore) stood at Rs. 39.9 crore and overall borrowings stood at Rs. 44.29 crore. The resourcefulness of promoters have supported the group's ability to undergo capital expenditure without adversely impacting the capital structure.

The Group's total debt of Rs. 44.3 crore as on March 31, 2019 comprises Short term working capital borrowings of Rs. 25.8 crore, Rs. 4 crore of unsecured loans from promoters and relatives and long term debt of Rs. 14.51 crore. The group's Interest Coverage Ratio (ICR) stood at 2.1 times in FY 2019 as against 2.3 times in FY 2018.

Acuité believes that the financial risk profile of the group will continue to be supported by the healthy resource raising ability of the promoters.

Weaknesses

- **Susceptibility of operating performance to input price volatility and increasing competition**

The group operates in a highly fragmented cotton industry characterized by the presence of a large number of unorganized players, thereby impacting the group's bargaining power. The main raw material purchased by the group is cotton. Cotton being an agricultural commodity by nature, the margins are susceptible to changes in cotton prices. Cotton availability and its pricing is highly dependent on agro-climatic conditions. Despite the prevalence of Minimum Support Price (MSP), the purchase price depends on the prevailing demand-supply situation which limits bargaining power with the suppliers as well.

Further, the group operates at a capacity utilization level of ~96 percent, which further arrests its ability to significantly scale up its operations.

Rating Sensitivity

- Any significant debt funded capex undertaken by the group.
- Significant elongation in working capital cycle.

Material Covenants

None

Liquidity: Adequate

The group maintains adequate liquidity position marked by net cash accruals of ~Rs. 4.9 crore in FY2019 (including deferred tax liability of Rs. 1.6 crore) as against long term debt obligations of Rs. 4.7 crore over the same period. The group has a moderate working capital cycle marked by Gross Current Assets (GCA) of 126 days in FY2019 as compared to 144 days in FY2018. Further, the cash credit limit of the group remained utilized at 91.9 percent during the last six months ended November, 2019. The current ratio of the group stood at 1.2 times as on March 31, 2019. Acuité believes that the liquidity of the group is likely to remain adequate over the medium term backed by healthy net cash accruals.

Outlook: Stable

Acuité believes that the group will maintain a stable business risk profile over the medium term. The group will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the group registers higher than expected growth in operations while maintaining profitability and leverage indicators. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in profitability metrics, significant elongation in working capital cycle or in case of higher than expected debt funded capital expenditure.

About the Rated Entity - Key Financials (Consolidated)

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	148.02	132.54
Profit After Tax (PAT)	Rs. Cr.	148.02	132.54
PAT Margin	(%)	0.09	1.35
Total Debt/Tangible Net Worth	Times	1.11	1.17
PBDIT/Interest	Times	2.10	2.31

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Consolidation of Companies: <https://www.acuite.in/view-rating-criteria-22.htm>
- Application of Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-17.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
16-Dec-2019	Cash Credit	Long Term	30.00	ACUITE BB+ (Downgraded from ACUITE BBB-) Issuer not co-operating*
	Bill Discounting	Short Term	1.00	ACUITE A4+ (Downgraded from ACUITE A3) Issuer not co-operating*
	Term Loan	Long Term	1.55	ACUITE BB+ (Downgraded from ACUITE BBB-) Issuer not co-operating*
	Proposed Bank Facility	Long Term	9.45	ACUITE BB+ (Downgraded from ACUITE BBB-) Issuer not co-operating*
05-Oct-2018	Cash Credit	Long Term	30.00	ACUITE BBB-/ Stable (Assigned)
	Bill Discounting	Short Term	1.00	ACUITE A3 (Assigned)
	Term Loan	Long Term	1.55	ACUITE BBB-/ Stable (Assigned)
	Proposed Bank Facility	Long Term	9.45	ACUITE BBB-/ Stable (Assigned)

*The issuer did not co-operate; based on best available information.

***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	30.00	ACUITE BBB-/ Stable (Upgraded)
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3 (Upgraded)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.39	ACUITE BBB-/ Stable (Upgraded)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	9.41	ACUITE BBB-/ Stable (Upgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.20	ACUITE A3 (Assigned)

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About Acuité Ratings & Research:

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