

Press Release

Elkaypee Spinners Private Limited

October 05, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 13.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE A three**) to the Rs. 13.00 crore bank facilities of Elkaypee Spinners Private Limited (ESPL). The outlook is '**Stable**'.

ESPL was incorporated in 1993 by Mr. P. Govindasamy. Subsequently, his sons, Mr. K. G. Senthil Kumar, Mr. P. G. Ramesh and Mr. P. G. Balaji joined the business. Located in Dindigul, ESPL's spinning units currently have a combined installed capacity of 24436 spindles manufacturing blended yarn of cotton and polyester of counts 20's to 60's

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 group) as both the entities are engaged in same line of business, common promoters and management.

Key Rating Drivers:

Strengths

• **Established Track record of operations and experienced management**

The group is promoted by Mr. P. Govindasamy, who has around three decades of experience in the textile industry. The group was started in 1991 and has gradually expanded to the present total capacity of 59092 spindles at its plants in Dindigul. The units are located in textile hub of Erode, Coimbatore and Tirupur. The group has a competent management supported by a team of well qualified and experienced second line personnel. The promoter's experience in textile industry has helped the company build healthy relationship with its suppliers and customers, to ensure a steady raw material supply and large offtake. The company procures Polystyrene Staple Fibre and cotton (major raw material) from suppliers in Tamil Nadu, Karnataka and Andhra Pradesh. For FY2018, top ten customers of the company contributed ~45 percent of total revenues providing low customer concentration risk. Majority of its revenues comes from Mumbai and Tirupur market. Acuité believes that promoter's extensive experience in textile industry would aid the business risk profile of the company over the medium term.

• **Moderate financial risk profile**

The group's financial risk profile is marked by healthy capital structure and moderate debt protection metrics. The gearing has improved to 0.93 times as on March 31, 2018 from 1.50 times as on March, 2016 supported by moderate cash accruals and retirement of term loans. Net worth is comfortable at Rs.36.66 crore in FY2018, due to better EBITDA margins supporting accretion to reserves. Moderate net cash accruals and debt has led to moderate NCA/TD and interest coverage ratio of 0.25 times and 2.80 times in FY2018 vis-à-vis 0.25 times and 2.61 times in FY2017, respectively. The group's cash accruals are expected around Rs.9.00 crore against repayment obligations of about Rs.1.45 crore in FY2019 which gives adequate cushion on its liquidity. Acuité believes that with moderate profitability margins and no significant capex plans, the financial risk profile is expected to improve over the medium term.

Weaknesses

• Moderate working capital operations

The group has moderate working capital operations as evident from its Gross Current Assets (GCA) of 153 days as on March 31, 2018 as against 151 days as on March 31, 2017. The group maintains an inventory of about two months, and offers credit of about two months to its clientele; resulted in inventory and receivable days of about 68 and 65 as on March 31, 2018. Moderate working capital management along with credit of 25-40 days from its suppliers supported in moderate utilisation of its working capital limits at about 80 percent over the past six months ended July 2018. As the raw materials are available throughout the year and manufacturing and sales operations too, the operations continue to be working capital intensive over the medium term.

• Revenue growth limited to capacity constraints

The revenue witnessed nominal growth at a compound annual growth rate (CAGR) of 2 per cent over the past three years due to high utilisation of its installed spindle units at about 94 percent in FY2018, and no enhancement in spindle capacity. The nominal growth in the revenue was owing to improving realisations. The group is not planning for any significant capital expenditure except debottlenecking of its existing facilities, which may support in marginal growth by about 10 percent over the medium term. However, its revenues continue to be range bound of Rs.135.0 - 145.0 crore constrained by capacity.

Outlook: Stable

Acuité believes that the group will maintain a 'Stable' outlook over the medium term from its promoter's industry experience. The outlook may be revised to 'Positive' in case of significant growth in its revenues while maintaining its profitability. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital operations or any significant debt-funded capex leading to deterioration of its financial risk profile and liquidity.

About the Group

Chenduran Cotspin India Private Limited (CIPL) was incorporated in 1991 by Mr. P. Govindasamy who has experience of over three decades in the textile industry. Subsequently, his sons, Mr. K. G. Senthil Kumar, Mr. P. G. Ramesh and Mr. P. G. Balaji joined the business. Located in Dindigul (Tamil Nadu), CIPL's spinning units currently have a combined installed capacity of 34656 spindles manufacturing blended yarn of cotton and polyester of counts 20's to 60's.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	135.62	131.27	129.49
EBITDA	Rs. Cr.	14.03	12.77	12.76
PAT	Rs. Cr.	3.10	4.19	1.30
EBITDA Margin	(%)	10.35	9.73	9.85
PAT Margin	(%)	2.28	3.19	1.01
ROCE	(%)	12.36	16.36	13.13
Total Debt/Tangible Net Worth	Times	0.93	1.03	1.50
PBDIT/Interest	Times	2.80	2.61	1.87
Total Debt/PBDIT	Times	2.42	2.25	2.63
Gross Current Assets (Days)	Days	153	151	131

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

None

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

*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	6.00	ACUITE BBB- / Stable
Overdraft	Not Applicable	Not Applicable	Not Applicable	1.60	ACUITE BBB- / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	4.71	ACUITE BBB- / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	0.69	ACUITE A3

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About Acuité Ratings & Research:

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