

Press Release
ELKAYPEE SPINNERS PRIVATE LIMITED
January 14, 2022
Rating Assigned and Upgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term
Bank Ratings Loan	0.64		ACUITE A3 Assigned
Bank Ratings Loan	2.90		ACUITE A3 Upgraded
Bank Ratings Loan	0.36	ACUITE BBB- Stable Assigned	
Bank Ratings Loan	10.10	ACUITE BBB- Stable Upgraded	
Total	14.00	-	-

Rating Rationale

Acuite has upgraded long-term rating from 'ACUITE BB+ (read as ACUITE double B plus) to ACUITE BBB- (read as ACUITE triple B minus) and short term rating from 'ACUITE A4+ (read as ACUITE A Four Plus) to ACUITE A3 (read as ACUITE A three) on the Rs.13.00 crore bank facilities of Elkaypee Spinners Private Limited (ESPL). The outlook is 'Stable'. Acuite has further assigned the long-term rating of ACUITE BBB- (read as ACUITE triple B minus) and short term rating of ACUITE A3 (read as ACUITE A three) on the Rs.1.00 crore bank facilities of Elkaypee Spinners Private Limited (ESPL). The outlook is 'Stable'.

The upgraded in ratings are on account of improved profitability level and margin and satisfactory total operating income during 8MFY22. The group also takes into account established track record of operations with experienced promoter and adequate liquidity, thereby providing sufficient cushion against debt repayment. The above ratings are, however underpinned by moderation in revenue in FY21, moderate financial risk profile of the group and working capital intensive nature of operations.

About the Company

Elkaypee Spinners Private Limited (ESPL) was incorporated as a private limited company in 1993. The manufacturing facility is located in Dindigul (Tamil Nadu) with installed capacity of 31000 spindles, manufacturing Polyester yarn blend. The same is supplied to textiles located in Chennai and Kolkata.

About the Group

Chenduran Cotspin India Private Limited (CIPL) was incorporated as a private limited company in 1991 by Mr. P. Govindasamy who is having an experience of over three decades in the textile industry. The company is managed by his sons K. G. Senthil Kumar P. G. Ramesh and Mr. P. G. Balaji joined the business. The company is Chennai based and has manufacturing facility located in Tiruppur district with installed capacity of 34000 spindles, manufacturing cotton yarn and polyester yarn blend. The client profile of the company is

located in Mumbai, Chennai and Kolkata.

Analytical Approach

Acuite has considered the consolidated business and financial risk profile of Chenduran Cotspin India Private Limited and Elkaypee Spinners Private Limited (referred as the Group) as both entities are engaged in same line of business with common promoters and management.

Extent of Consolidation: Full

Key Rating Drivers

Strengths

Established track record of operations with experienced promoters

ESPL was incorporated in 1993 by Mr. P. Govindsamy. Subsequently, his sons Mr. K.G Senthil Kumar and Mr. P. G. Ramesh and Mr. P.G. Balaji joined the business. The promoters have experience of more than a decade in business operations of the company and hence has also been able to establish long standing relationship with customers and suppliers.

Satisfactory financial performance during 8MFY22

The group reported total operating income of Rs. 120.24 crore and net profit of Rs.2.13 crore during 8MFY22, thereby already surpassing the total operating income of FY21. The net profit margin remained at 1.77% during the period.

Improvement in profitability level and margin

The group reported increase in operating profit from to Rs.14.07 crore in FY21 vis-à-vis Rs.12.64 crore in FY20, thereby resulting in improved profitability margin from 9% in FY20 to 11.86% in FY21. The same is on account of lower cotton prices during 5MFY21. In line with operating profit, the net profit also increased to Rs. 2.43 crore in FY21 over Rs.1.25 crore in FY20. The same is also due to decline in interest cost in FY21 vis-à-vis FY20. Consequently, the net profit margin of the group also increased to 2.05% in FY21 from 0.89% in FY20.

Weaknesses

Moderate Financial Risk Profile

The capital structure of the group as represented by debt-equity ratio remained at 1.08 times as on March 31, 2021 against 1.04 times as on March 31, 2020. The moderation is mainly on account of group availing additional debt in the form of GECL in FY21. However, the interest coverage ratio of the group also improved from 2.01 times during FY20 to 2.42 times in FY21, backed by both increase in operating profit and decline in interest cost. The Net cash accruals to total debt remained at 0.16-0.17 times during FY20-21. The total outstanding liability to tangible net-worth remained at similar level with marginal moderation at 1.42 times in FY21 over 1.39 times in FY20. The debt-EBITDA moderated to 3.75 times during FY21 vis -à-vis 3.27 times in FY20.

Moderation in total operating income in FY21

The group reported total operating income of Rs.118.63 crore during FY21 against Rs.140.50 crore during FY20, thereby reporting y-o-y de-growth of 15.56%. The moderation in revenue is on an account of COVID induced lockdown, wherein the operations were halted during the month of April-May 2020.

Working capital intensive nature of operations

The gross current asset days of the group increased to 197 days during FY21 against 137 days in FY20. The inventory days, hence increased to 84 days in FY21 against 59 days in FY20. As major raw material is cotton, which is a seasonal material, the group holds stock between 45-60 days. The group also extends credit period of 60-75 days to its clients. The debtors' period remained at 87 days in FY21 against 75 days in FY20. The creditors period remained at 5 days during FY21 against 14 days in FY20. The working capital utilization for past 11 months ending November 2021 remained at 92%.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

>Improvement in revenue and profitability margins.

>Any elongation of the working capital cycle leading to deterioration in debt protection metrics and liquidity profile.

Material covenants

None

Liquidity: Adequate

The liquidity profile of the group remained at adequate level with net cash accruals of Rs.8.06 crore in FY21 against debt repayment of Rs.0.18 crore, thereby providing sufficient cushion. The current ratio remained above unity at 1.55 times as on March 31, 2021 vis-à-vis 1.31 times as on March 31, 2020. The DSCR continues to remain above unity. The group is expected to generate net cash accrual of around Rs. 9.0 crore in FY22-23 against debt repayment of Rs.4-5 crore during the period. The group has cash and bank balance of Rs.5.0 crore as on March 31, 2021.

Outlook: Stable

Acuité believes that the outlook of the 'Group' will remain 'Stable' over the medium term on account of its experienced promoter and long track record of operations. The outlook may be revised to 'Positive' in case of significant improvement in scale of operations while maintaining the profitability. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or reduction in operating income of the company.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	118.63	140.50
PAT	Rs. Cr.	2.43	1.25
PAT Margin	(%)	2.05	0.89
Total Debt/Tangible Net Worth	Times	1.08	1.04
PBDIT/Interest	Times	2.42	2.01

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

None

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
10 May 2021	Secured Overdraft	Long Term	1.60	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	8.50	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Letter of Credit	Short Term	2.44	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Bank Guarantee	Short Term	0.46	ACUITE A4+ (Downgraded and Issuer not co-operating*)
12 Feb 2020	Cash Credit	Long Term	8.50	ACUITE BBB- Stable (Upgraded from ACUITE BB+)
	Letter of Credit	Short Term	2.44	ACUITE A3 (Upgraded from ACUITE A4+)
	Bank Guarantee	Short Term	0.46	ACUITE A3 (Assigned)
	Secured Overdraft	Long Term	1.60	ACUITE BBB- Stable (Upgraded from ACUITE BB+)
16 Dec 2019	Proposed Bank Facility	Long Term	4.71	ACUITE BB+ (Issuer not co-operating*)
	Cash Credit	Long Term	6.00	ACUITE BB+ (Issuer not co-operating*)
	Letter of Credit	Short Term	0.69	ACUITE A4+ (Issuer not co-operating*)
	Secured Overdraft	Long Term	1.60	ACUITE BB+ (Issuer not co-operating*)
05 Oct 2018	Cash Credit	Long Term	6.00	ACUITE BBB- Stable (Assigned)
	Proposed Bank Facility	Long Term	4.71	ACUITE BBB- Stable (Assigned)
	Letter of Credit	Short Term	0.69	ACUITE A3 (Assigned)
	Secured Overdraft	Long Term	1.60	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
CSB Bank Limited	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB- Stable Upgraded (from ACUITE BB+)
CSB Bank Limited	Not Applicable	Dropline Overdraft	Not Applicable	Not Applicable	Not Applicable	3.64	ACUITE BBB- Stable Upgraded (from ACUITE BB+)
CSB Bank Limited	Not Applicable	Dropline Overdraft	Not Applicable	Not Applicable	Not Applicable	0.36	ACUITE BBB- Stable Assigned
CSB Bank Limited	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.90	ACUITE A3 Upgraded (from ACUITE A4+)
CSB Bank Limited	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	0.60	ACUITE A3 Assigned
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.04	ACUITE A3 Assigned
CSB Bank Limited	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	1.46	ACUITE BBB- Stable Upgraded (from ACUITE BB+)

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About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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