

Press Release

Elkaypee Spinners Private Limited

February 06, 2023



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	7.00	ACUITE BBB- Negative Assigned	-
Bank Loan Ratings	10.22	ACUITE BBB- Negative Reaffirmed Stable to Negative	-
Bank Loan Ratings	3.78	-	ACUITE A3 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	21.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed its long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and its short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.14.00 Cr and assigned its long-term rating of **ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs. 7.00 Cr bank facilities of ELKAYPEE SPINNERS PRIVATE LIMITED (ESPL). The outlook is revised to '**Negative**' from '**Stable**'.

Rationale for the rating

The revision in outlook is on account of subdued operating performance of Chenduran group. The operating income of the Group improved to Rs. 189.75 Cr in FY2022 as against Rs. 118.63 Cr in FY2021. In 9MFY2023, the revenue of the Group stood at Rs. 109.83 Cr and is expected to generate Rs.150-160 Cr by year end. The operating profitability which declined from 11.86 percent in FY2021 to 8.56 percent in FY2022, is expected to decline further, however, shall remain range bound within 7-9 percent. The moderation in FY23 is primarily on account of subdued demand across industry and raw material price inflation. Further, the liquidity position of the Group is likely to remain stretched in the near term with tightly matching net cash accruals against repayment obligations.

The ratings continue to be supported by the experienced management and moderate financial risk profile of the Group. Going forward, ability of the Group to improve its scale of operations and profitability margins while maintaining the capital structure will remain a key rating monitorable.

About 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 38000 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 Tiruppur based and has manufacturing facility located in Tiruppur district with installed capacity of 38000 spindles, manufacturing cotton yarn and polyester yarn blend. The client profile of the company is located in Tiruppur, Mumbai, Chennai and Kolkata.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

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.

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.

- **Moderate financial risk profile**

The financial risk profile of the group has remained moderate marked by low gearing and moderate debt protection metrics. The net worth of the group stood at Rs.47.87 Cr and Rs.45.17 Cr as on March 31, 2022 and 2021 respectively. The gearing of the group stood at 0.84 times as on March 31, 2022 against 1.08 times as on March 31, 2021. The interest coverage ratio and debt service coverage ratio stood at 2.91 times and 2.12 times as on March 31, 2022 respectively as against 2.42 times and 2.48 times as on March 31, 2021 respectively. TOL/TNW stood at 1.20 times in FY2022 against 1.42 times in FY2021. The debt to EBITDA of the company stood at 2.40 times as on March 31, 2022 as against 3.74 times as on March 31, 2021. Acuite expects the financial risk profile to remain moderate over the medium to long term period due to absence of any major debt funded capex plan.

Weaknesses

- **Working Capital Management**

Group's working capital cycle is moderate as reflected by its gross current asset (GCA) days at 114 days as on March 31, 2022 as against 197 days as on March 31, 2021. The improvement in GCA days are driven by mainly inventory days. Inventory days stood at 57 days as on March 31, 2022 as against 84 days as on March 31, 2021. Subsequently, the payable period stood at 13 days as on March 31, 2022 as against 7 days as on March 31, 2021 respectively. The debtor day stood at 46 days as on March 31, 2022 as against 87 days as on March 31, 2021. Further, the average bank limit utilization in the last eight months ended November, 22 remained at ~90 percent for fund based limits.

• Susceptible to changes in input prices and high competition

Group's profitability is susceptible to changes in the prices of the raw material. The prices of yarn are influenced by movement in prices of its substitutes, i.e. cotton and polyester staple fibres. The prices of cotton are highly dependent on agroclimatic conditions. Besides, cotton prices are fixed by the government through Minimum Support Price (MSP). However, the purchase price depends on the prevailing demand-supply situation, which limits bargaining power with suppliers as well. The prices of the main raw material. are relatively stable as compared to cotton prices. Acuité believes that group should be able to maintain its operating profitability around existing levels, notwithstanding the volatility in prices of its key inputs on the back of its established position in the domestic market. Further, the company is exposed to intense competition in the highly fragmented textile industry. The company also faces stiff competition from organized and unorganized players in the domestic market.

Rating Sensitivities

Improvement in revenue and profitability margins.

Any elongation of the working capital cycle leading to deterioration in debt protection

Material Covenants

None

Liquidity Position: Stretched

The liquidity profile of the group is stretched marked by modest net cash accruals against repayment obligations. The , group generated net cash accruals of Rs 6.84 Cr in FY2022 against its long term debt obligations of Rs. 0.16 Cr. The group is expected to generate net cash accrual of around Rs.6 to 8 Cr in FY23-25 against debt repayment of Rs.4-6 Cr during the period. Unencumbered cash and bank balances stood at 0.32 Cr as on March 31, 2022. The current ratio remained above unity at 1.45 times as on March 31, 2022 . The fund based bank limits utilization of group is 90 percent for fund based limits respectively for the past eight months ending November 2022.

Outlook: Negative

Acuité believes that the outlook of the Group is 'Negative' on account of subdued operating performance in the current year which is expected to lead to a stretched liquidity position over the near term. Outlook may be revised to 'Stable ' on significant and sustainable improvement in scale of operations ,profitability margins and overall liquidity position of the Group. The rating may be 'downgraded' if there is higher-thanexpected decline in revenues ,profitability margins and deterioration in the liquidity position of the Group.

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	189.75	118.63
PAT	Rs. Cr.	1.55	2.43
PAT Margin	(%)	0.82	2.05
Total Debt/Tangible Net Worth	Times	0.84	1.08
PBDIT/Interest	Times	2.91	2.42

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

None

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
14 Jan 2022	Letter of Credit	Short Term	2.90	ACUITE A3 (Upgraded from ACUITE A4+)
	Cash Credit	Long Term	5.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+)
	Dropline Overdraft	Long Term	0.36	ACUITE BBB- Stable (Assigned)
	Working Capital Term Loan	Long Term	1.46	ACUITE BBB- Stable (Upgraded from ACUITE BB+)
	Dropline Overdraft	Long Term	3.64	ACUITE BBB- Stable (Upgraded from ACUITE BB+)
	Letter of Credit	Short Term	0.60	ACUITE A3 (Assigned)
	Proposed Bank Facility	Short Term	0.04	ACUITE A3 (Assigned)
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+)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
CSB Bank Limited	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE BBB- Negative Reaffirmed Stable to Negative
CSB Bank Limited	Not Applicable	Dropline Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	3.33	ACUITE BBB- Negative Reaffirmed Stable to Negative
CSB Bank Limited	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	3.50	ACUITE A3 Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	0.53	ACUITE BBB- Negative Assigned
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.28	ACUITE A3 Reaffirmed
CSB Bank Limited	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	4.37	ACUITE BBB- Negative Assigned
CSB Bank Limited	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.93	ACUITE BBB- Negative Assigned
Small Industries Development Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.49	ACUITE BBB- Negative Assigned
Small Industries Development Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.44	ACUITE BBB- Negative Assigned
Small Industries Development	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.24	ACUITE BBB- Negative

Bank of India								Assigned
CSB Bank Limited	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	1.89	ACUITE BBB- Negative Reaffirmed Stable to Negative

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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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