



Press Release
Elkaypee Spinners Private Limited
May 06, 2024

Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	17.22	ACUITE BB Stable Downgraded Negative to Stable	-
Bank Loan Ratings	3.78	-	ACUITE A4+ Downgraded
Total Outstanding Quantum (Rs. Cr)	21.00	-	-

Rating Rationale

Acuite has downgraded its long-term rating to '**ACUITE BB**' (read as **ACUITE Double B**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and its short-term rating to '**ACUITE A4+**' (read as **ACUITE A four plus**) from '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.21.00 Cr. bank facilities of ELKAYPEE SPINNERS PRIVATE LIMITED (ESPL). The outlook is revised to '**Stable**' from '**Negative**'.

Rationale for downgrade and revision in outlook:

The rating downgrade and revision in outlook is on account of a higher-than-expected decline in revenues, profitability margins and deterioration in the liquidity position of the Group. The operating income of the group has shown degrowth of ~ (28.44) percent in FY2023.. It stood at Rs. 135.79 Cr in FY2023 against Rs. 189.75 Cr in FY2022 and is estimated to record revenue of Rs.123.70 Cr in FY2024. The profitability margin (EBITDA) also declined to 5.26 percent in FY2023 from 8.56 percent in FY2022, and is estimated to decline further in FY2024 and remain in range of 3-3.5 percent. The estimated moderation operating performance in FY24 is primarily on account of subdued demand across cotton industry and raw material price inflation. The liquidity profile of the group stood stretched, marked by inadequate net cash accruals generation to its maturing debt obligations. The Group generated cash accruals of Rs.4.59 Cr in FY2023, against its maturing debt obligations of Rs. 6.90 Cr during the same period. The rating also factors in the deterioration in the financial risk profile marked by a below average capital structure, high gearing and weak debt protection metrics. The gearing of the group stood at 2.65 times as on March 31, 2023, against 0.84 times as on March 31, 2022.

The ratings, however, continues to be supported by the established track record of operations along with experienced promoters. Going ahead, the ability of the group to improve its scale of operations and profitability margins while improving its 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 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.

Unsupported Rating

Not applicable

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

CIPL was incorporated in 1991 by Mr. P. Govindsamy. Subsequently, his son, Mr. K. G Senthil Kumar and Mr. P. G. Ramesh and Mr. P.G. Balaji joined the company. The promoters have experience of more than a decade in business operations of the company and hence have also been able to establish long relationships with customers and suppliers. Acuite believes that the group will continue to benefit from extensive experience of its management and established track record of operations

Weaknesses

- **Sharp decline in scale of operations and profitability margins**

The operating income of the group has shown degrowth by nearly 28.44 percent in FY2023, i.e. It stood at Rs. 135.79 Cr in FY2023 against Rs. 189.75 Cr in FY2022. The main reasons for the decrease in revenue are fluctuating cotton prices, subdued demand levels, and resultant underutilization of capacity. The group's operating margin declined and stood at ~5.26 percent in FY2023 from ~8.56 percent in FY2022, and it is expected to decline further. However, it will remain within a range of 3–3.5 percent. Further, the group is estimated to achieve a revenue of Rs.123.70 Cr in FY2024. The moderation in FY2024 is primarily on account of subdued demand across industry and raw material price inflation. Acuite believes that the ability of the group to improve its scale of operations and profitability margins while improving its capital structure will remain a key rating monitorable.

- **Below average financial risk profile**

The financial risk profile of the group has remained below average, with a below-average capital structure, high gearing levels, and weak debt protection metrics. The net worth of the group stood at Rs.23.85 Cr and Rs.47.87 Cr as of March 31, 2023, and 2022, respectively. The reason for the decline in net worth is on account of a reduction in quasi-equity in FY2023. The reason for the withdrawal of Quasi equity is on account of inadequate net cash accruals to repay the debt. The gearing of the group stood at 2.65 times as on March 31, 2023, against 0.84 times as on March 31, 2022. The deterioration in the gearing ratio is on account of an increase in the debt portion and a decrease in the net worth position. The debt protection metrics - interest coverage ratio and debt service coverage ratio stood at 2.09 times and 0.80 times as on March 31, 2023,

respectively, as against 2.91 times and 2.12 times as on March 31, 2022 respectively. The debt to EBITDA of the company stood at 6.18 times as on March 31, 2023 as against 2.40 times as on March 31, 2022. Acuité believes that the financial risk profile of the group will remain below average over the medium term.

- **Intensive Working Capital Management**

The group's working capital cycle is intensive, as reflected by its high gross current asset (GCA) days at 136 days as on March 31, 2023, as against 114 days as on March 31, 2022. The deterioration in GCA days is on account of the increase in inventory days and other current assets. Inventory days stood at 67 days as on March 31, 2023, as against 57 days as on March 31, 2022. The debtor day stood at 33 days as on March 31, 2023, as against 46 days as on March 31, 2022. Subsequently, the payable period stood at 44 days as on March 31, 2023, as against 13 days as on March 31, 2022, respectively. Further, the average bank limit utilization over the 12 months ended March 31, 2024, remained at ~94 percent for fund-based limits. Acuité believes that the working capital operations of the group will remain at similar levels over the medium term.

- **Susceptible to changes in input prices and high competition**

The group's profitability is susceptible to changes in the prices of the raw material, i.e. viscose fibre. The prices of viscose 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, i.e. viscose fibre, are relatively stable as compared to cotton prices. Acuité believes that the 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
- Deterioration in capital structure
- Any significant elongation of the working capital cycle

Liquidity Position: Stretched

The liquidity profile of the group stood stretched, marked by inadequate net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.4.59 Cr in FY2023, while its maturing debt obligations were Rs. 6.90 Cr during the same period. Going forward, the group is expected to generate net cash accruals in the range of Rs. 0.52-4.27 Cr in FY 2024-25 against repayment obligations of Rs.4.56-5.77 Cr. The group has financial support from promoters to meet the shortfall in debt obligations. The unencumbered cash and bank balances stood at 8.23 Cr as on March 31, 2023. The current ratio stood at 1.11 times as on March 31, 2023 and the limits remains utilized at 94 percent for fund based over the 12 months ended March 31, 2024. Acuité believes that the liquidity of the group is likely to remain stretched over the near to medium term.

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 improving the profitability and financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital management or reduction in operating income and profitability leading to strain on liquidity position and further

deterioration in the financial risk profile of the group.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	135.79	189.75
PAT	Rs. Cr.	0.52	1.55
PAT Margin	(%)	0.39	0.82
Total Debt/Tangible Net Worth	Times	2.65	0.84
PBDIT/Interest	Times	2.09	2.91

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

Not applicable

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, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité'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
06 Feb 2023	Cash Credit	Long Term	5.00	ACUITE BBB- Negative (Reaffirmed)
	Dropline Overdraft	Long Term	3.33	ACUITE BBB- Negative (Reaffirmed)
	Working Capital Term Loan	Long Term	1.89	ACUITE BBB- Negative (Reaffirmed)
	Term Loan	Long Term	4.37	ACUITE BBB- Negative (Assigned)
	Term Loan	Long Term	0.93	ACUITE BBB- Negative (Assigned)
	Term Loan	Long Term	0.49	ACUITE BBB- Negative (Assigned)
	Term Loan	Long Term	0.44	ACUITE BBB- Negative (Assigned)
	Term Loan	Long Term	0.24	ACUITE BBB- Negative (Assigned)
	Proposed Long Term Loan	Long Term	0.53	ACUITE BBB- Negative (Assigned)
	Letter of Credit	Short Term	3.50	ACUITE A3 (Reaffirmed)
	Proposed Short Term Bank Facility	Short Term	0.28	ACUITE A3 (Reaffirmed)
14 Jan 2022	Cash Credit	Long Term	5.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+)
	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+)
	Dropline Overdraft	Long Term	0.36	ACUITE BBB- Stable (Assigned)
	Letter of Credit	Short Term	2.90	ACUITE A3 (Upgraded from ACUITE A4+)
	Letter of Credit	Short Term	0.60	ACUITE A3 (Assigned)
	Proposed Short Term Bank Facility	Short Term	0.04	ACUITE A3 (Assigned)
10 May 2021	Cash Credit	Long Term	8.50	ACUITE BB+ (Downgraded & Issuer not co-operating* from ACUITE BBB- Stable)
	Secured Overdraft	Long Term	1.60	ACUITE BB+ (Downgraded & Issuer not co-operating* from ACUITE BBB- Stable)
	Bank Guarantee (BLR)	Short Term	0.46	ACUITE A4+ (Downgraded & Issuer not co-operating* from ACUITE A3)
	Letter of Credit	Short Term	2.44	ACUITE A4+ (Downgraded & Issuer not co-operating* from ACUITE A3)

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 avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	5.00	ACUITE BB Stable Downgraded Negative to Stable (from ACUITE BBB-)
CSB Bank Limited	Not avl. / Not appl.	Dropline Overdraft	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	2.14	ACUITE BB Stable Downgraded Negative to Stable (from ACUITE BBB-)
CSB Bank Limited	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	3.50	ACUITE A4+ Downgraded (from ACUITE A3)
Not Applicable	Not avl. / Not appl.	Proposed Long Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	4.97	ACUITE BB Stable Downgraded Negative to Stable (from ACUITE BBB-)
Not Applicable	Not avl. / Not appl.	Proposed Short Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	0.28	ACUITE A4+ Downgraded (from ACUITE A3)
CSB Bank Limited	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	15 Dec 2027	Simple	3.28	ACUITE BB Stable Downgraded Negative to Stable (from ACUITE BBB-)
CSB Bank Limited	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	04 Nov 2026	Simple	0.62	ACUITE BB Stable Downgraded Negative to Stable (from ACUITE BBB-)
Small Industries Development Bank of India	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	10 Feb 2025	Simple	0.18	ACUITE BB Stable Downgraded Negative to Stable (from ACUITE BBB-)
								ACUITE BB

Small Industries Development Bank of India	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	10 May 2024	Simple	0.03	Stable Downgraded Negative to Stable (from ACUITE BBB-)
CSB Bank Limited	Not avl. / Not appl.	Working Capital Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	30 Nov 2027	Simple	1.00	ACUITE BB Stable Downgraded Negative to Stable (from ACUITE BBB-)

***Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt. Support)**

1. Chenduran Cotspin India Private Limited (CIPL)
2. ELKAYPEE SPINNERS PRIVATE LIMITED (ESPL)

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 mohit.jain@acuite.in Moparthy Anuradha Devi Analyst-Rating Operations Tel: 022-49294065 moparthy.anuradha@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité. Please visit <https://www.acuite.in/faqs.htm> to refer FAQs on Credit Rating.