

Press Release

Cylwin Knifashions

February 22, 2021



Rating Assigned

Total Bank Facilities Rated*	Rs.17.61 Cr.
Long Term Rating	ACUITE BB/Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE BB**' (**read as ACUITE double B**) on the Rs.17.61 crore bank facilities of Cylwin Knifashions (CKF). The outlook is '**Stable**'.

About Company

Cylwin Knifashions is a Tirupur based partnership firm established in 1991. The firm promoted by T. Chinnaswamy and C. Jayanthi is engaged in manufacturing and export of Hosiery and Knitted garments. The firm exports to the U.K., Ireland, Germany and France. The firm undertakes knitting, printing and embroidery activities. Washing, bleaching, Dyeing and compacting are outsourced by the firm.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of CKF to arrive at the rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experience management**

CKF was incorporated in year 1991 and has an established presence of around three decades. The firm is promoted by T. Chinnaswamy and C. Jayanthi, who possess collective experience of over two decades in the readymade garments industry.

Acuité believes that the firm will continue to benefit the partners' experience and its established presence in the industry, improving its business risk profile over the medium term.

- **Moderate financial risk profile**

CKF financial risk profile is moderate marked by moderate net worth, gearing (debt-equity) and moderate debt protection metrics. The tangible net worth of the firm stood at Rs.19.60 crore as on 31 March, 2020 (Provisional) as against Rs.15.22 crore as on 31 March, 2019. The total debt of Rs.11.79 crore as on 31 March, 2020 (Provisional) consist of long term debt of Rs.2.65 crore and short term borrowing of Rs.9.14 crore. The gearing (debt-equity) stood at 0.60 times as on 31 March, 2020 (Provisional) as compared to 0.71 times as on 31 March, 2019. The Interest Coverage Ratio stood at 6.88 times in FY2020 (Provisional) as against 9.60 times in FY2019. Total Outside Liabilities/Total Net Worth (TOL/TNW) stood at 0.95 times as on 31 March, 2020 (Provisional) as against 1.10 times as on 31 March, 2019. Net Cash Accruals to Total Debt (NCA/TD) also stood at 0.33 times for FY2020 (Provisional).

Acuité believes that the financial risk profile of CKF will continue to remain moderate over the medium term in the absence of any major debt-funded capital expenditure.

Weaknesses

• Intensive working capital cycle

The firm has an intensive working capital cycle marked by Gross Current Assets (GCA) days of 135 days in FY2020 (Provisional) and 146 days in FY2019. The receivable days stood at 46 days in FY2020 (Provisional) as against 80 days in FY2019. The inventory days stood at 25 days in FY2020 (Provisional) as against 30 days in FY2019. However, the average bank limit utilization remained low at 32 percent for the last 6 months ending September 2020.

Acuité believes that efficient working capital management will be crucial to the firm in order to maintain a healthy risk profile.

• Intense competition in textile industry

CKF operates in a highly competitive and fragmented industry having characterized by large number of unorganised players, mainly on account of low entry barriers. This can have an impact on the profitability margins of the firm.

• Risk of capital withdrawal

The firm is exposed to the risk of capital withdrawal considering its partnership constitution. Any significant withdrawal from the partner's capital will have a negative bearing on the financial risk profile of the firm.

Rating Sensitivities

- Improving scale of operations while maintaining profitability.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

Material Covenants

None

Liquidity Position: Adequate

CKF has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.3.90-4.00 crore during the last three years through 2018-20, while its maturing debt obligations were Rs.0.50-1.50 crore over the same period. The firm's working capital operations are intensive marked by Gross Current Asset (GCA) of 135 days in FY2020 (Provisional) as against 146 days in FY2019. The firm maintains unencumbered cash and bank balances of Rs.5.05 crore as on March 31, 2020 (Provisional). The current ratio of the firm stands healthy at 1.30 times as on March 31, 2020 (Provisional). The average bank limit utilization is around 32 percent for the last 6 months ending September 2020.

Outlook: Stable

Acuité believes that CKF will continue to maintain a 'Stable' outlook over the near to medium term owing to its established market position and experienced management. The outlook may be revised to 'Positive' in case the firm achieves higher than expected growth in revenues and improvement in profitability, working capital management and debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of a significant decline in revenues and operating profit margins or deterioration in the capital structure and liquidity position on account of higher-than-expected working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	49.05	42.76
PAT	Rs. Cr.	2.75	2.71
PAT Margin	(%)	5.61	6.33
Total Debt/Tangible Net Worth	Times	0.60	0.71
PBDIT/Interest	Times	6.88	9.60

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

BRICKWORKS RATING, vide its press release dated September 11, 2020 had denoted the rating of Cylwin Knitfashions (CKF) as 'BWR B+/Stable/A4 (Downgraded; Reaffirmed and Issuer Not Cooperating)' on account of lack of adequate information required for monitoring of ratings.

Any other information

None.

Applicable Criteria

- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- 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 (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
PC/PCFC/FDB/FB E/BRD	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BB/Stable (Assigned)
WCTL	June 2020	7.50	June 2024	2.61	ACUITE BB/Stable (Assigned)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President - Corporate and Infrastructure Sector Tel: 022 49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022 49294011 rating.desk@acuite.in
Vishal Kotian Analyst – Rating Operations Tel: 022 49294064 vishal.kotian@acuite.in	

About Acuité Ratings & Research:

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