

Press Release

Chenniappa Yarn Spinners Private Limited

March 10, 2021



Rating Assigned

Total Bank Facilities Rated*	Rs.38.00 Cr.
Long Term Rating	ACUITE BBB-/Stable (Assigned)
Short Term Rating	ACUITE A3 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and the short term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the Rs.38.00 crore bank facilities of Chenniappa Yarn Spinners Private Limited (CYSPL). The outlook is '**Stable**'.

About the company

Tamil Nadu based, Chenniappa Yarn Spinners Private Limited was incorporated in the year 2005 by Mr. C Subramaniam, Managing director. The company is engaged in spinning activity for manufacturing of cotton yarn. The company at present has 20,400 spindles, 600 rotors and a wind mill with a capacity of 2.20 Mega-watt (MW). The company manufactures grey yarn, mélange yarn and open end yarn. The count ranges between 20-40s.

The rating assigned on the bank facilities of CYSPL is driven by its experienced management, established track record of operations, improvement in revenue, moderate profitability margins, moderate financial risk profile and expected improvement in business profile and financial risk profile post FY2021, backed by sustained improvement in cotton yarn demand leading to higher yarn realisations. The above strengths are partially offset by its working capital intensive operations and susceptibility to fluctuation in raw material prices.

Analytical Approach

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

Key Rating Drivers

Strengths

• Experienced management and established track record of operations

CYSPL is engaged in the cotton spinning for more than a decade. The company is promoted by Mr. C. Subramaniam along with his family members. Mr. C. Subramaniam is the managing director of the company and possesses more than 3 decades of experience in the textile industry. In the year 1992, Mr. C. Subramaniam started a firm called Chenniappa textiles, engaged in manufacturing of fabrics. Later, in 2005, he started Chenniappa Yarn Spinners Private Limited as a part of backward integration. This helped the promoter in understanding the market dynamics. The extensive industry experience of the promoters has enabled them to establish a healthy relationship with its various customers and suppliers. The company has total of 20,400 spindle capacity, 600 rotors and 2.20 Mega Watt (MW) wind mill. Despite the unfavorable industry dynamics in FY2020, the company has managed to improve and achieve revenue of Rs.77.52 Cr. CYSPL generated revenue of Rs.53.31 Cr for 10M of FY2021. Acuité believes that the promoter's extensive industry experience and established relation with its customers and suppliers will aid CYSPL's business risk profile over the medium term.

• Cost efficient measures to secure and improve profitability margins

CYSPL has been managing its costs efficiently. This has helped the company in maintaining its profitability margins over the period. The profitability margins have been marginally fluctuating over the review period; although remained moderate. The EBITDA margin stood at 11.15 percent in FY2018 as against 8.92 percent in FY2019 and 9.87 percent in FY2020. The decline in EBITDA in FY2019 was on account of increase in raw material costs. Going forward; the margins of the company is expected to improve owing to order backed

purchase from Cotton Corporation of India (CCI). From FY2021 onwards, CYSPL has been majorly procuring cotton from CCI. This usually works as order backed for 3 months at a prevailing rate. The company procured the raw material at Rs.42000/candy (356 kg) from CCI in January 2021. At present, the market price stood at Rs.46000/candy. This in turn has benefitted the company in procuring the cotton at pre-determined rate at Rs.42000/candy; leading to better RM inventory management at better prices. Adding to it, CYSPL has wind mill with capacity of 2.20 Mega Watt for captive consumption; which suffices 60 percent of the power requirements of the company. Acuité believes that the cost efficient measures undertaken by the company will continue to improve its profitability margins in the near term.

- **Moderate financial risk profile**

The financial risk profile of the company has remained moderate with moderate capital structure and debt protection metrics. The networth of the company stood at Rs.24.02 Cr as on March 31, 2020 as against Rs.22.48 Cr as on March 31, 2019. The gearing (Debt-to-Equity) stood at 1.15 times as on March 31, 2020 as against 1.36 times as on March 31, 2019. The improvement in gearing is on account of increase in networth backed by increase in PAT in absolute terms w.r.to increase in top line and decline in total debt levels when compared to previous year FY2019. Debt protection metrics has also improved with Interest Coverage Ratio at 2.17 times and 1.93 times as on March 31, 2020 and 2019 respectively. Debt Service Coverage Ratio at 1.14 times and 0.93 times as on March 31, 2020 and 2019 respectively. The improved EBITDA in absolute terms and decline in debt levels led to improvement in debt protection metrics. TOL/TNW stood at 1.68 times and 1.89 times as on March 31, 2020 and 2019 respectively. Acuité believes that financial risk profile of the company is expected to remain moderate owing to moderate accretion to reserves and no significant debt funded capex in the medium term.

- **Improving revenues over the last three years despite unfavorable market dynamics in FY2020; improvement expected from H2 of FY2021**

The revenue of the company has been marginally improving over the review period. The revenue stood at Rs.68.90 Cr in FY2018 as against Rs.74.28 Cr in FY2019 and Rs.77.52 Cr in FY2020. Despite decline in yarn realisations, the revenue improved in FY2020. The realisation stood at Rs.223.64/kg in FY2020 as against Rs.228.74/kg in FY2019. Due to impact of Covid-19, the company has witnessed lower revenue in H1FY21 as reflected in its revenue of Rs.25.85 Cr until September, 2020. From H2FY21, the revenue is expected to pick as witnessed in revenue improved to Rs.27.46 Cr from October 2020 to January 2021. The company recorded 10MFY21 revenue of Rs.53.31Cr. There is a de growth of ~15 percent in revenue when compared to 10 months period of FY2020 owing to impact of Covid-19; which hampered the sales for H1 of FY2021. From H2 of FY2021, yarn prices, mainly those of cotton yarn, have increased sharply in Q2 & Q3 of FY2021 as inventories dried up and supplies failed to match demand and spinning mills delayed resumption of their operations across the country. There was a sudden rise in demand for yarn from the garment and cloth sectors resulting in the non-availability of stocks. The other reason for increase in yarn prices is due to increase in raw material price, i.e. cotton has also increased. Acuité believes that CYSPL's operating performance remained impacted due to outbreak of Covid-19 and unfavorable industry dynamics in H1FY2021.

Weaknesses

- **Working capital intensive operations**

The working capital cycle of CYSPL remained intensive, evident from its GCA days of 199 days as on March 31, 2020 as against 207 days as on March 31, 2019. The inventory days stood at 103 days and 123 days as on March 31, 2020 and 2019, respectively. The cotton industry is marked by high inventory holding levels. Cotton is generally procured during the season beginning from October to March to sustain the raw material requirement for upcoming 5-6 months until the start of the next season; it is reflective in terms of its inventory days of 100-125 days over the last three years ending March 31, 2020. The company procures cotton from ginners. From FY2021, the company started majorly procuring cotton from Cotton Corporation of India wherein credit period of 90 days is offered. The creditor days stood at 57 days and 55 days as on March 31, 2020 and 2019, respectively. The company provides credit period of 60-90 days to its customers. The debtor days stood at 88 days and 73 days as on March 31, 2020 and 2019, respectively. The bank lines remained utilized around 84 percent for the last six months ended January 2021. Acuité believes that CYSPL's working capital cycle will remain moderate over the medium term.

- **Susceptibility to fluctuation in raw material prices**

The main raw material purchased by the company is cotton. Hence, the margins are susceptible to changes in cotton prices. Cotton being an agricultural commodity, the availability and price of the same is highly dependent on agro-climatic conditions. Despite the prevalence of Minimum

Support Price (MSP), the purchase price depends on the prevailing demand-supply situation which limits bargaining power with the suppliers as well. CYSPL is engaged in manufacture of fine counts, which provides some cushion from raw material price fluctuations. Acuité believes that CYSPL 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 market.

Rating Sensitivities

- Lower-than-expected revenue and profitability
- Any further deterioration in working capital management leading to deterioration in financial risk profile and liquidity

Liquidity Position: Adequate

The liquidity position of the company is adequate with adequate net cash accruals to its debt obligations. The net cash accruals stood at Rs.4.03 Cr for FY2020 as against repayment obligation of Rs.3.11 Cr for the same period. Cash and Bank balance of the company stood at Rs.0.25 Cr as on March 31, 2020. Current ratio of the company stood at 1.22 times as on March 31, 2020. The working capital limits are almost 84 percent utilized for the last six months ended in January 2021. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of moderate cash accruals.

Outlook: Stable

Acuité believes that CYSPL will continue to benefit over the medium term due to its experienced management and established relationships with its suppliers and customers. The outlook may be revised to 'Positive', in case of higher-than-expected revenues and profitability with improvement in working capital management and liquidity. Conversely, the outlook may be revised to 'Negative' in case CYSPL registers lower-than-expected revenues and profitability or any significant stretch in its working capital management or any major debt-funded capex plan leads to deterioration in its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	77.52	74.28
PAT	Rs. Cr.	1.54	0.99
PAT Margin	(%)	1.98	1.34
Total Debt/Tangible Net Worth	Times	1.15	1.36
PBDIT/Interest	Times	2.17	1.93

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

Brickwork Ratings, vide its press release dated January 20, 2021 had denoted the rating of Chenniappa Yarn Spinners Private Limited as 'BWR BB+/A4+; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings.

Any Material Covenants

None

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>

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	20.50	ACUITE BBB-/ Stable (Assigned)
Term Loan	Jan 2018	10.90	Sept 2022	1.70	ACUITE BBB-/ Stable (Assigned)
Term Loan	Jan 2018	10.90	Sept 2022	0.30	ACUITE BBB-/ Stable (Assigned)
Term Loan	Sept 2020	8.20	Sept 2024	4.98	ACUITE BBB-/ Stable (Assigned)
Term Loan	Jan 2018	10.90	Mar 2022	0.69	ACUITE BBB-/ Stable (Assigned)
Term Loan	Jan 2018	10.90	June 2024	2.92	ACUITE BBB-/ Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A3 (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.13	ACUITE A3 (Assigned)
Proposed	Not Applicable	Not Applicable	Not Applicable	0.78	ACUITE BBB-/ Stable (Assigned)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Nagidi Bhavani Analyst - Rating Operations Tel: 040-40042327 nagidi.bhavani@acuite.in	

About Acuité Ratings & Research:

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