

Press Release

Chenniappa Yarn Spinners Private Limited

July 25, 2022



Rating Reaffirmed

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|------------------------------------|------------------|-----------------------------------|------------------------|
| Bank Loan Ratings | 33.87 | ACUITE BBB- Stable Reaffirmed | - |
| Bank Loan Ratings | 4.13 | - | ACUITE A3 Reaffirmed |
| Total Outstanding Quantum (Rs. Cr) | 38.00 | - | - |
| Total Withdrawn Quantum (Rs.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 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'.

Reason for rating reaffirmation

The rating takes into consideration the established market position of the company in the cotton yarn spinning business. The ratings also draw comfort from long extensive experience of the promoters in the aforementioned industry and augmentation in business risk profile of the company. The rating also factors the moderate financial risk profile and adequate liquidity position of the company. However, the rating is constrained by working capital intensive nature of operations and higher reliance on working capital limits.

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 22,800 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.

Analytical Approach

Acuite 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 22,800 spindles capacity, 600 rotors and 2.20 Mega Watt (MW) wind mill. Acuité believes that the company will sustain its existing business profile over the medium term on the back of an established track record of operations with an experienced management.

Augmentation in business risk profile

The revenue of the company increased by ~29 percent and stood at Rs.99.43 crore in FY22 compared to revenue of Rs.77 crore in FY21. This growth is majorly on account of higher price realization and increase in demand for the products. The company has received an order from 'Bella Canvas' of USA which has also helped in the augmentation of the business risk profile of the company. The operating profit margin of the company increased and stood at 9.91 percent in FY22 compared against 9.21 percent in FY21. This increase in the operating profit margin is majorly due to the increase in the revenues for FY22. The PAT margin improved from 2.41 percent in FY21 to 4.50 percent in FY22. The company is taking cost reduction measures like installation of solar plant for captive use in their manufacturing plants and also has 3 windmills. This would help the company to reduce the power costs. Acuité believes that the cost reduction methods used by the company will help the company improve the margins in medium term.

Moderate financial risk profile

CYSPL has a moderate financial risk profile marked by tangible net worth of Rs.30.35 crore as on 31 March 2022 as against Rs.25.88 crore on 31 March 2021. The increase in the net worth is majorly due to the accretion of profits in the reserves. The gearing level of the company improved to 1.07 times as on 31 March 2022 as against 1.14 times as on 31 March 2021. The total debt of the company comprised of long term debt of Rs.5.35 crore and short term debt of Rs.22.96 crore as on 31 March 2022. The coverage ratios of the company remained moderate with Interest Coverage Ratio (ICR) of 3.86 times for FY22 against 2.32 times for FY21. The Debt Service Coverage Ratio (DSCR) stood at 1.71 times for FY22 against 1.26 times for FY21. The total outside liabilities to tangible net worth (TOL/TNW) of the company stood at 1.71 times for FY22 as against 1.40 times for FY21. 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.

Weaknesses

Working capital intensive operations

CYSPL's operations are working capital intensive as evident from Gross Current Asset (GCA) of 185 days as on March 31, 2022, as against 190 days as on March 31, 2021. The high GCA days is majorly on account of increase in the inventory days. 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. Hence the inventory levels stood at 101 days for FY22 compared against 89 days for FY21. The debtor days improved and stood at 51 days for FY22 against 64 days for FY21. The improvement in the debtors days for FY22 is because the customer 'Bella Canvas' of USA gives advances to the company. The creditor days of the company stood at 85 days for FY22 as against 3 days for FY21. The reason behind increase in creditors is due to purchase of material in bulk on credit due to increase in prices. The average utilization of the working capital limits of the company remained on a higher side at ~91 percent in last six months ended June' 22.

Acuité believes that CYSPL's working capital cycle will remain a key sensitivity in 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

Material covenants

None

Liquidity position: Adequate

CYSPL has adequate liquidity position marked by adequate net cash accruals against its maturing debt obligations. The company generated cash accruals of Rs.6.64 crore in FY22 compared against maturing debt obligations of Rs.2.77 crore over the same period. The cash accruals of the company are estimated to remain around Rs.7.10-Rs9.16 crore during 2023-25 period while its matured debt obligations is estimated to be in the range of Rs. 2.83-Rs.4.30 crore during the same period. The company reliance on working capital borrowings is also on a higher side marked by average utilization of working capital limits of ~91 percent during the last six months period ended June' 2022. Furthermore, the company maintains unencumbered cash and bank balances of Rs.0.26 crore as on March 31, 2022 and the current ratio also stood moderate at 1.12 times as on March 31, 2022. 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.

Key Financials

| Particulars | Unit | FY 22 (Provisional) | FY 21 (Actual) |
|-------------------------------|---------|---------------------|----------------|
| Operating Income | Rs. Cr. | 99.43 | 77.00 |
| PAT | Rs. Cr. | 4.48 | 1.86 |
| PAT Margin | (%) | 4.50 | 2.41 |
| Total Debt/Tangible Net Worth | Times | 1.07 | 1.14 |
| PBDIT/Interest | Times | 3.86 | 2.32 |

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

Brickwork Ratings, vide its press release dated May 20, 2021 had denoted the rating of Chenniappa Yarn Spinners Private Limited as 'BWR BB+/A4+; Withdrawn,Reaffirmed,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>
- 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 Mar 2021 | Proposed Bank Facility | Long Term | 0.78 | ACUITE BBB- Stable (Assigned) |
| | Cash Credit | Long Term | 20.50 | ACUITE BBB- Stable (Assigned) |
| | Letter of Credit | Short Term | 6.00 | ACUITE A3 (Assigned) |
| | Bank Guarantee | Short Term | 0.13 | ACUITE A3 (Assigned) |
| | Term Loan | Long Term | 2.92 | ACUITE BBB- Stable (Assigned) |
| | Term Loan | Long Term | 4.98 | ACUITE BBB- Stable (Assigned) |
| | Term Loan | Long Term | 0.69 | ACUITE BBB- Stable (Assigned) |
| | Term Loan | Long Term | 0.30 | ACUITE BBB- Stable (Assigned) |
| | Term Loan | Long Term | 1.70 | 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 |
|------------------|----------------|-----------------------------------|------------------|----------------|----------------|-------------------|-----------------------------------|
| Karur Vysya Bank | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 10.00 | ACUITE BBB- Stable Reaffirmed |
| Federal Bank | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 14.50 | ACUITE BBB- Stable Reaffirmed |
| Not Applicable | Not Applicable | Proposed Short Term Bank Facility | Not Applicable | Not Applicable | Not Applicable | 4.13 | ACUITE A3 Reaffirmed |
| Federal Bank | Not Applicable | Term Loan | Not available | Not available | Not available | 1.50 | ACUITE BBB- Stable Reaffirmed |
| Federal Bank | Not Applicable | Term Loan | Not available | Not available | Not available | 0.33 | ACUITE BBB- Stable Reaffirmed |
| Federal Bank | Not Applicable | Term Loan | Not available | Not available | Not available | 4.14 | ACUITE BBB- Stable Reaffirmed |
| Federal Bank | Not Applicable | Term Loan | Not available | Not available | Not available | 0.67 | ACUITE BBB- Stable Reaffirmed |
| Federal Bank | Not Applicable | Term Loan | Not available | Not available | Not available | 2.73 | ACUITE BBB- Stable Reaffirmed |

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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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