



Press Release
Chenniappa Yarn Spinners Private Limited
October 12, 2023
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	38.00	ACUITE BBB- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	38.00	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.38.00 crore bank facilities of Chenniappa Yarn Spinners Private Limited (CYSPL).

The outlook is '**Stable**'.

Rationale of Rating Reaffirmation

The rating reaffirmation takes into account stable operating performance of CYSPL marked by stable operating income improved operating margins and moderate financial profile. The company recorded operating income of Rs.92.77 Cr in FY2023 (prov.) as against 99.67 Cr in FY2022 and increase in the operating margin to 11.15 percent in FY2023 (prov.) from 9.56 percent in FY2022 inspite of the fluctuation in cotton prices. The improvement in the operating margin is mainly due installation of solar panels aiding to reduction in the power costs. The financial risk profile of CYCPL continues to be moderate with moderate debt protection metrics and moderate gearing. The overall gearing of the Company stood at 1.16 times as on March 31, 2023(Prov.) as against 1.12 times as on March 31, 2022. The interest coverage ratio stood at 2.77 times in FY2023(Prov.) as against 3.33 times in FY2022.

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 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, 736 rotors and a wind mill with a capacity of 2.20 Mega-watt (MW), solar with 3.90 MW capacity. 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, 736 rotors and 2.20 Mega Watt (MW) wind mill capacity, solar with 3.90 MW capacity. 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.

- **Moderate financial risk profile**

CYSPL has an moderate financial risk profile marked by moderate capital structure and moderate debt protection metrics. The tangible net worth stood at Rs. 33.01 Cr as on March 31, 2023(Prov.) as against Rs. 29.06 Cr as on March 31, 2022. The gearing of the company stood at 1.66 times as on March 31, 2023(Prov.) against 1.12 times as on previous year. Further, the interest coverage ratio stood at 2.77 times as on March 31, 2023(Prov.) as against 3.33 times as on March 31, 2022. DSCR stood at 1.36 times as on March 31, 2023 as against 1.51 times as on March 31, 2022. The debt to EBITDA of the company stood at 5.12 times as on March 31, 2023(Prov.) as against 3.37 times as on March 31, 2022. However, the TOL/TNW stood to 1.97 times as on March 31, 2023(Prov.) as against 1.76 times as on March 31, 2022. 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**

Company's working capital cycle is intensive marked by high Gross Current Asset (GCA) days of 241 days as on March 31, 2023(Prov.) as against 167 days as on March 31, 2022. The GCA days are marked by high debtor days and inventory days. Inventory days stood at 104 days as on March 31, 2023(Prov.) as against 97 days as on March 31, 2021. Subsequently, the payable period stood at 53 days as on March 31, 2023(Prov.) as against 35 days as on March 31, 2022 respectively. Further, the average bank limit utilization in the last twelve months ended September, 23 remained at ~87 percent for fund based. 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

- Improvement revenue and profitability while maintaining capital structure
- Any further deterioration in working capital management leading to deterioration in financial risk profile and liquidity

All Covenants

None

Liquidity Position

Adequate

The liquidity profile of CYSPL is adequate marked by its adequate net cash accruals to its maturing debt obligations. The company has reported cash accruals of Rs.6.83 Cr. in FY2023(Prov.) against maturing debt obligations of Rs.4.01 Cr over the same period. and expected to generate cash accruals in the range of Rs.7.5-9.27 Cr. against CPLTD of Rs.3.23-3.83 Cr. over the medium term. Unencumbered cash and bank balances stood at Rs.0.22 Cr as on March 31, 2023(Prov.). The current ratio of the company stood at 1.33 times as on March 31, 2023(Prov.). Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of working capital intensive nature of operations

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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	92.77	99.67
PAT	Rs. Cr.	3.41	3.72
PAT Margin	(%)	3.67	3.73
Total Debt/Tangible Net Worth	Times	1.66	1.12
PBDIT/Interest	Times	2.77	3.33

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

None

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

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
25 Jul 2022	Term Loan	Long Term	4.14	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	0.33	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	1.50	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE BBB- Stable (Reaffirmed)
	Proposed Bank Facility	Short Term	4.13	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	0.67	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	14.50	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	2.73	ACUITE BBB- Stable (Reaffirmed)
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	Complexity Level	Quantum (Rs. Cr.)	Rating
Karur Vysya Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BBB- Stable Reaffirmed
Federal Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	14.50	ACUITE BBB- Stable Reaffirmed
Federal Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	4.41	ACUITE BBB- Stable Reaffirmed
Federal Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2.73	ACUITE BBB- Stable Reaffirmed
Federal Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.21	ACUITE BBB- Stable Reaffirmed
Federal Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	3.90	ACUITE BBB- Stable Reaffirmed
Federal Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.42	ACUITE BBB- Stable Reaffirmed
Federal Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.83	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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