



Press Release
Chennaiappa Yarn Spinners Private Limited
December 23, 2024
Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	5.00	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	38.00	ACUITE BBB- Stable Reaffirmed	-
Bank Loan Ratings	6.00	-	ACUITE A3 Assigned
Total Outstanding Quantum (Rs. Cr)	49.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has reaffirmed its long-term rating of ‘**ACUITE BBB-**’ (read as **ACUITE triple B minus**) on the Rs.38.00 crore bank facilities of Chennaiappa Yarn Spinners Private Limited (CYSPL). The outlook is ‘**Stable**’.

Acuité has assigned its long-term rating to ‘**ACUITE BBB-**’ (read as **ACUITE triple B minus**) and short term rating to ‘**ACUITE A3**’ (read as **ACUITE A three**) on the Rs.11.00 crore bank facilities of Chennaiappa Yarn Spinners Private Limited (CYSPL). The outlook is ‘**Stable**’.

Rationale for reaffirmation & assigned:

The rating reaffirmation takes into account stable operating performance of CYSP marked by stable operating income and operating margins and a moderate financial profile. 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 1.65 times as on March 31, 2024, as against 1.75 times as on March 31, 2023. The rating takes into consideration the established market position of the company in the cotton yarn spinning business. The ratings also draw comfort from the 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 limit.

About the Company

Tamil Nadu-based Chennaiappa Yarn Spinners Private Limited was incorporated in the year 2005 by Mr. C. Subramaniam, managing director. The company is engaged in spinning activity for the manufacturing of cotton yarn. The company at present has 22,800 spindles, 736 rotors, and a windmill with a capacity of 2.20 megawatts (MW) and solar with a 3.90 MW capacity. The company manufactures grey yarn, mélange yarn, and open-end yarn. The count ranges between 20-40s.

Unsupported Rating

Not Applicable

Analytical Approach

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

Key Rating Drivers

Strengths

- Experienced management and established track record of operations

CYSPL has been engaged in 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 a total of 22,800 spindles of capacity, 736 rotors, and 2.20 megawatts (MW) windmill capacity, with 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**

The company's financial risk profile is moderate, marked by a moderate capital structure, gearing, and healthy debt protection metrics. The net worth of the company stood at Rs.33.25 Cr. and Rs.31.64 Cr. as on March 31, 2024, and 2023, respectively. The improvement in net worth is due to the accretion of reserves. Gearing of the company stood at 1.65 times as on March 31, 2024, against 1.75 times as on March 31, 2023. Debt protection metrics—interest coverage ratio and debt service coverage ratio—stood moderate at 2.01 times and 1.25 times as on March 31, 2024, respectively, as against 2.57 times and 1.08 times as on March 31, 2023, respectively. TOL/TNW (total outside liabilities/total net worth) stood at 1.96 times and 2.22 times as on March 31, 2024 and 2023, respectively. The debt to EBITDA of the company stood high at 5.56 times as on March 31, 2024, as against 5.59 times as on March 31, 2023. Acuité believes that the 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 working capital operations are intensive, marked by high gross current asset (GCA) at 233 days in FY2024 as against 233 days in FY2023. The GCA days are impacted mainly on account of inventory days and debtor days where extended credit periods are offered to customers. Inventory days stood at 126 days in FY2024 as against 103 days in FY2023. Debtor days stood at 93 days in FY2024 as against 84 days in FY2023. Around 90 percent of debtors were realized within a 6-month period. Subsequently, the payable period stood at 32 days in FY2024 as against 49 days in FY2023, respectively.

• **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 are 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 the 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

Liquidity Position: Adequate

CYSPL liquidity is adequate, marked by adequate net cash accruals to its maturing debt obligation. The company has generated cash accruals in the range of Rs. 4.86 Cr. in FY2024, while its maturing debt obligations were Rs. 2.92 Cr. during the same period. Going forward, the company is expected to generate net cash accruals of Rs. 5.83-7.37 Cr. in FY 2025-26 against Rs. 3.12-3.82 Cr. debt obligations. The current ratio stood at 1.29 times as on March 31, 2024. Further, the average bank limit utilization for the fund-based limits stood at 95 percent, and for non-fund-based limits stood at 78 percent for the last 12 months ending in October 2024. The company maintains unencumbered cash and bank balances of Rs. 0.28 Cr. as on March 31, 2024. Acuité believes that the liquidity of the company is likely to improve over the medium term.

Outlook: Stable

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 24 (Actual)	FY 23 (Actual)
Operating Income	Rs. Cr.	93.16	92.48
PAT	Rs. Cr.	1.62	2.03
PAT Margin	(%)	1.74	2.20
Total Debt/Tangible Net Worth	Times	1.65	1.75
PBDIT/Interest	Times	2.01	2.57

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

Not Applicable

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>
- 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, 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
12 Oct 2023	Cash Credit	Long Term	10.00	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	2.73	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	0.21	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	3.90	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	0.42	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	1.83	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	14.50	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	4.41	ACUITE BBB- Stable (Reaffirmed)
25 Jul 2022	Proposed Short Term Bank Facility	Short Term	4.13	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	1.50	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	0.33	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	4.14	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	0.67	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	2.73	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	14.50	ACUITE BBB- Stable (Reaffirmed)
10 Mar 2021	Bank Guarantee (BLR)	Short Term	0.13	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	6.00	ACUITE A3 (Assigned)
	Proposed Long Term Bank Facility	Long Term	0.78	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	1.70	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	0.30	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	2.92	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	20.50	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Complexity Level	Rating
Karur Vysya Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	16.80	Simple	ACUTE BBB- Stable Reaffirmed
Federal Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	10.50	Simple	ACUTE BBB- Stable Reaffirmed
Karur Vysya Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	2.20	Simple	ACUTE BBB- Stable Assigned
Federal Bank	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	6.00	Simple	ACUTE A3 Assigned
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	0.80	Simple	ACUTE BBB- Stable Assigned
Federal Bank	Not avl. / Not appl.	Term Loan	18 May 2023	Not avl. / Not appl.	18 Jul 2029	3.97	Simple	ACUTE BBB- Stable Reaffirmed
Federal Bank	Not avl. / Not appl.	Term Loan	01 Mar 2024	Not avl. / Not appl.	01 Feb 2027	2.19	Simple	ACUTE BBB- Stable Reaffirmed
Federal Bank	Not avl. / Not appl.	Term Loan	28 Feb 2022	Not avl. / Not appl.	16 Dec 2025	0.10	Simple	ACUTE BBB- Stable Reaffirmed
Federal Bank	Not avl. / Not appl.	Term Loan	30 Apr 2022	Not avl. / Not appl.	07 Apr 2029	3.50	Simple	ACUTE BBB- Stable Reaffirmed
Federal Bank	Not avl. / Not appl.	Term Loan	28 Feb 2022	Not avl. / Not appl.	16 Dec 2025	0.21	Simple	ACUTE BBB- Stable Reaffirmed
Federal Bank	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	18 Jul 2029	0.73	Simple	ACUTE BBB- Stable Reaffirmed
Federal Bank	Not avl. / Not appl.	Working Capital Demand Loan (WCDL)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	2.00	Simple	ACUTE BBB- Stable Assigned

Contacts

Mohit Jain Senior Vice President-Rating Operations	Contact details exclusively for investors and lenders
Moparthi Anuradha Devi Senior Analyst-Rating Operations	Mob: +91 8591310146 Email ID: analyticalsupport@acuite.in

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