

## Press Release

### Cheran Spinner Private Limited

May 10, 2023



## Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	46.52	ACUITE BBB-   Stable   Assigned	-
Bank Loan Ratings	13.48	-	ACUITE A3   Assigned
Total Outstanding Quantum (Rs. Cr)	60.00	-	-

## Rating Rationale

Acuite has assigned 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 Rs. 60.00 crore bank facilities of Cheran Spinner Private Limited (CSPL). The outlook is '**Stable**'

### Rationale for rating assigned

The rating assigned takes into consideration the extensive experience of the promoters and the established market position of the company in the textile industry especially across the state of Tamil Nadu. The rating also draws comfort from CSPL's stable growth in the scale of operation of the company reflected by compounded annual growth rate (CAGR) of 7.61 percent through FY22 coupled with its moderate financial risk profile. However, these strengths are partially offset by the intensive nature of working capital operations which is also reflected through higher reliance on working capital limits with an average utilization of more than 92% for 6 months ended December 2022. The rating assigned is also constrained by susceptibility of the profitability to fluctuations in the raw material prices and presence in highly competitive industry.

### About the Company

Incorporated in 1991, Cheran Spinner Private Limited (CSPL) is engaged in manufacturing of various types of yarn and specialises in manufacturing of viscose yarn. The manufacturing facility of the company is set up in Erode, Tamil Nadu with a capacity of 40,000 spindles. The company is promoted by A. S. Palanisamy, S. Muthusamy, P. Thangavel and M. Ramakrishna Prasad who have over three decades of experience in the industry.

### Analytical Approach

Acuite has considered the standalone business and financial risk profile to arrive at the rating of CSPL



## Key Rating Drivers

### Strengths

#### **Extensive experience of management and established track record of operations**

CSPL is based out of Tamilnadu and was incorporated in 1991 reflecting its long track record of operations in the textile industry. The promoters of the company, A. S. Palanisamy, S. Muthusamy, P. Thangavel and M. Ramakrishna Prasad have been working in the textile industry for over three decades. The operations of the company are managed by its promoters who are ably supported by a qualified and well experienced senior management team. The experienced of promoters and long track record of operations in the textile industry has helped the company to maintain healthy and long-term relationships with both its customers and suppliers.

Acuité believes CSPL will continue to benefit over the medium term from its longstanding association with its key customers as well as suppliers.

#### **Stable scale of operations albeit declining profitability**

CSPL is engaged in manufacturing various types of blended yarn and majorly focused on manufacturing of viscose yarn. The operating income of the company has improved by CAGR of 7.6 percent over the last three years through FY22. The operating income of the company stood at Rs.171.59 crore in FY22 as against Rs. 95.22 crore in FY21 and Rs.137.70 crore in FY20. During 9MFY23 the company recorded revenue of Rs.135 crore. The operating income of the company declined in FY21 on account of the covid induced lockdown. The operating margins of the company has seen a consistent decline since FY22. The operating margins of the company stood at 7.73 percent in 9MFY23 as against 9.15 percent in FY22 and 14.10 percent in FY21. Such a downfall in the operating margins are on account of declining price realization due to the competitive pricing of viscose yarn in the industry and firm raw material prices. The PAT margins of the company are rangebound between 2 to 2.5 percent and stood at 2.26 percent in 9MFY23 as against 2.47 percent in FY22 and 2.08 percent in FY21.

Acuite believes that the company's ability to sustain its scale of operations while maintaining profitability will remain a key rating sensitivity.

#### **Moderate Financial risk profile**

Financial risk profile of the company is moderate marked by moderate network, low gearing and average debt protection metrics. Tangible network of the company stood at Rs. 66.79 crore as on March 31, 2022 as against Rs. 62.56 crore as on March 31, 2021 and Rs. 60.58 crore as on March 31, 2020. The network of the company has strengthened over the years on account of increase of accretion to reserves. Total debt of the company stood at Rs. 53.84 crore as on March 31, 2022 as against Rs. 57.12 crore as on March 31, 2021 and Rs. 49.47 crore as on March 31, 2020. The management follows a conservative financial policy marked by its peak gearing levels of 0.91 times as on March 31, 2021. Gearing of the company stood has improves to 0.81 times as on March 31, 2022 as against 0.91 times as on March 31, 2021 and 0.82 times as on March 31, 2020. TOL/TNWs stood at 0.99 times as on March 31, 2022 as against 1.15 times as on March 31, 2021 and 1.06 times as on March 31, 2020. Debt protection metrics of the company are average with DSCR at 1.33 times in FY22 as against 1.35 times in FY21 and 2.06 times as on FY20. ICR stood at 2.79 times in FY22 as against 2.41 times in FY21 and 2.17 times in FY20.

Acuite believes that the financial risk profile of the company is likely to improve in the near to medium term on account of likely improvement in scale of operations and no major debt funded capital expenditure.

### Weaknesses

#### **Intensive nature of working capital operations**

The working capital operations of the company are intensive marked by GCA days of 137 days in FY22 as against 266 days in FY21 and 149 days in FY20. The GCA days are driven by inventory holding period and the debtor collection period. On an average, the company collectively maintains an inventory of raw materials and finished goods for 90 days. The



inventory holding period of the company improved at 91 days in FY22 as against 200 days in FY21 and 98 days in FY20. Higher inventory holding period in FY21 is on account of higher purchases towards the end of the year. The company offers varied credit period to debtors which usually ranges between 60-90 days. The debtor collection period of the company improved at 53 days in FY22 as against 97 days in FY21 and 78 days in FY20. The creditor days stood at 6 days in FY22 as against 30 days in FY21 and 27 days in FY20. CSPL's reliance on bank limits is high with 92.24 percent utilization of fund based bank limits for 6 months ended December 2022.

Acuite believes that the working capital operations of the company may continue to remain intensive in the near to medium term considering the nature of industry, and that will remain a key rating sensitivity.

### **Highly competitive textile industry and susceptibility of profits due to the fluctuations in the raw material prices**

The textile industry in India is highly fragmented and competitive marked by the presence of a large number of organised and unorganised players. The group is exposed to intense competition from both domestic players as well as the established players in the overseas market. The shifts in consumption patterns may have an impact on the operations of the company.

Further, the viscose yarn prices in the industry have been compromised on account of heavy imports of viscose yarn at competitive prices having an adverse impact on the profitability of the viscose yarn manufacturers.

Further, the company also faces a supplier concentration risk as ~80 percent of viscose fibre are procured from a single supplier. Any fluctuations in the prices of viscose yarn is likely to impact the profitability of the company.

### **Rating Sensitivities**

Sustained improvement in scale of operations while maintaining profitability  
Elongation in working capital operations leading to stretch in liquidity position

### **Material covenants**

None

### **Liquidity Position Adequate**

CSPL's liquidity is adequate marked by adequate net cash accruals as against its debt service obligation. The net cash accruals of the company stood at 9.82 crore in FY22 as against debt service obligation of Rs. 8.44 crore during the same period. The net cash accruals of the company are likely to remain adequate to meet its debt service obligations in near to medium term. While the net cash accruals of the company are adequate, CSPL's reliance on bank limits is high with average utilization of 92.24% for 6 months ended December 2022. The current ratio of the company stood at 2.07 times as on March 31, 2022 against 1.79 times as on March 31, 2021. The unencumbered cash balance of the company stood at Rs. 0.03 crore as on March 31, 2022.

Acuite believes that liquidity profile is expected to remain adequate on account of adequate cash accruals against moderate repayment obligation.

### **Outlook: Stable**

Acuite believes that CSPL will maintain a 'Stable' outlook over the medium term owing to its experienced promoters and management and long track record of operations of the company. The outlook may be revised to 'Positive' if the company demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its margins. Conversely, the outlook may be revised to 'Negative' in case deterioration in its working



capital management or higher than expected debt-funded capex leading to deterioration in its financial risk profile and liquidity.

### Other Factors affecting Rating

None

### Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	171.59	95.22
PAT	Rs. Cr.	4.23	1.98
PAT Margin	(%)	2.47	2.08
Total Debt/Tangible Net Worth	Times	0.81	0.91
PBDIT/Interest	Times	2.79	2.41

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

None

### Any other information

Not applicable

### 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, 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](http://www.acuite.in)

### Rating History:

Not Applicable

### Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	8.00	ACUITE BBB-   Stable   Assigned
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE BBB-   Stable   Assigned



Federal Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	3.00	ACUITE BBB-   Stable   Assigned
Axis Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	2.00	ACUITE A3   Assigned
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	11.48	ACUITE A3   Assigned
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	15.52	ACUITE BBB-   Stable   Assigned



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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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