



Press Release
Cheran Spinner Private Limited
August 07, 2024
Rating Assigned and Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	14.31	ACUITE BB+ Stable Assigned	-
Bank Loan Ratings	58.00	ACUITE BB+ Stable Downgraded	-
Bank Loan Ratings	2.00	-	ACUITE A4+ Downgraded
Total Outstanding Quantum (Rs. Cr)	74.31	-	-

Rating Rationale

Acuite has downgrade its long term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating to '**ACUITE A4+**' (read as **ACUITE A four plus**) from '**ACUITE A3**' (read as **ACUITE A three**) on Rs. 60.00 crore bank facilities of Cheran Spinner Private Limited (CSPL). The outlook is '**Stable**'

Acuite has assigned its long term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) on Rs.14.31 crore bank facilities of Cheran Spinner Private Limited (CSPL). The outlook is '**Stable**'.

Rationale for downgrade

The rating downgrade takes into account of decline in operating margins in FY2024(prov) & FY2023, below average financial risk profile and stretched liquidity. The operating margins of the company declined and stood at 6.65 percent in FY2024(prov) as against 6.22 percent in FY2023 and 9.15 percent in FY2022 due to competitive prices of viscous yarn. Further, the DCSR of the company stood at 0.81 times as on FY2024(prov). The rating is supported by extensive experience of management and stable operating revenue.

Going forward, the company's ability to generate adequate NCA against CPLTD by improving its operating margins and timely completion of CAPEX is key monitorable.

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 viscous 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.

Unsupported Rating

Not Applicable

Analytical Approach

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

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.

Acuite 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 moderated profitability margins

CSPL is engaged in manufacturing various types of blended yarn and is primarily focused on the manufacturing of viscose yarn. The operating income of the company remained stable over the last three years through FY2024(prov). The operating income of the company stood at Rs.182.54 Cr in FY2024(prov) as against Rs.168.95 Cr. in FY2023 and Rs.171.59 Cr. in FY2022.

The operating margins of the company have been moderated in FY2024 (prov) and FY2023. The operating margins of the company stood at 6.65 percent in FY2024(prov) as against 6.22 percent in FY2023 and 9.15 percent in FY2022. The decline in operating margins is on account of the dumping of viscose yarn at competitive prices by Chinese and Indonesian viscose yarn manufacturers; thus the bargaining power of domestic yarn manufacturers has decreased. The prices of the products sold by the company are market determined. Further, on account of the decline in operating margins, the PAT margins of the company are rangebound between 0.50 - 0.60 percent.

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

Weaknesses

Below - average financial risk profile

The financial risk profile of the company is below -average marked by moderate network, gearing and below- average debt protection metrics. The tangible network of the company stood at Rs.68.77 Cr. as on March 31, 2024 (prov) as against Rs. 67.69 Cr. as on March 31, 2023. The total debt consists of Rs.19.44 Cr. of long-term debt, Rs.37.47 Cr. of short-term debt and Rs.10.41 Cr. of current maturities of long-term debt. The short-term debt includes Rs.7.44 Cr. of raw material purchase loan from RBL Bank. Further, the company has two ongoing CAPEX which are expected to be completed in FY2025. The company is adding 2000 spindles and a solar project of 2MW. The total cost of the project is Rs.15.00 Cr which is partly funded by the addition of loans of Rs.12.40 Cr. The gearing level is moderate and stood at 0.98 times as on March 31, 2024 (prov) as against 0.75 times as on March 31, 2023. Further, TOL/TNW stood at 1.18 times as on March 31, 2024 (prov) as against 1.00 times as on March 31, 2023. However, the Debt/EBITDA ratio deteriorated and stood at 5.44 times as on March 31, 2024 (prov) as against 4.67 times as on March 31, 2023 and 3.24 times as on March 31, 2022.

The debt protection metrics of the company are below -average with an interest coverage ratio of 2.23 times as on March 31, 2024 (prov) as against 2.33 times as on March 31, 2023. Furthermore, the DSCR stood below unity and stood at 0.81 times as on March 31, 2024 (prov) as against 0.81 times as on March 31, 2023.

Acuite believes that the financial risk profile of the company will improve to moderate over the medium term. Further, with the expectation of improvement in the operating margins in FY2025 and FY2026, the company will be able to improve its debt protection metrics.

Intensive nature of working capital operations

The working capital operations of the company are intensive marked by GCA days of 173 days in FY2024(prov) as against 180 days in FY2023. The GCA days are driven by the inventory holding period and the debtor collection period. On average, the company collectively maintains an inventory of raw materials and finished goods for 90 days. The inventory holding period of the company improved to 89 days in FY2024(prov) as against 101 days in FY2023. The company offers varied credit periods to debtors, which usually range between 50-70 days.

The debtor collection period of the company stood at 64 days in FY2024(prov) as against 60 days in FY2023.

Viscose fiber is the major raw material for the company and is purchased from Grasim on an advance payment basis. The creditor days stood at 11 days in FY2024(prov) as against 17 days in FY2023. CSPL's reliance on bank limits stood high with 93.92 percent utilization of fund-based bank limits and 90.52 percent for the 12 months ended June 2024.

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 the 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 and profitability.
- Any significant elongation in working capital cycle leading to deterioration in the financial risk profile and liquidity position.

Liquidity Position: Stretched

The Liquidity of the company is stretched with inadequate net cash accruals as against its debt service obligations. The net cash accruals of the company stood at Rs.6.59 Cr. in FY2024(prov) as against debt service obligation of Rs.9.39 Cr. during the same period. The current ratio of the company stood at 1.77 times as on March 31, 2024 (prov) against 1.79 times as on March 31, 2023. The unencumbered cash balance of the company stood at Rs. 0.06 crore as on March 31, 2024 (prov). However, with the stabilisation of supply of viscose yarn in domestic market in Q1FY2025, ACUITE believes that the company will be able to generate sufficient net cash accruals over the medium term.

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 along with improving its margins. Conversely, the outlook may be revised to 'Negative' in case further 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 24 (Provisional)	FY 23 (Actual)
Operating Income	Rs. Cr.	182.54	168.95
PAT	Rs. Cr.	1.08	0.90
PAT Margin	(%)	0.59	0.53
Total Debt/Tangible Net Worth	Times	0.98	0.75
PBDIT/Interest	Times	2.23	2.33

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, 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
10 May 2023	Letter of Credit	Short Term	2.00	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	11.48	ACUITE A3 (Assigned)
	Cash Credit	Long Term	8.00	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	15.52	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	20.00	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	3.00	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
Axis Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	8.00	ACUITE BB+ Stable Downgraded (from ACUITE BBB-)
HDFC Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	20.00	ACUITE BB+ Stable Downgraded (from ACUITE BBB-)
Federal Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	3.00	ACUITE BB+ Stable Downgraded (from ACUITE BBB-)
Axis Bank	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	2.00	ACUITE A4+ Downgraded (from ACUITE A3)
Federal Bank	Not avl. / Not appl.	Term Loan	28 Aug 2023	Not avl. / Not appl.	31 Jul 2027	Simple	9.21	ACUITE BB+ Stable Downgraded (from ACUITE BBB-)
HDFC Bank Ltd	Not avl. / Not appl.	Term Loan	26 Feb 2021	Not avl. / Not appl.	07 Aug 2028	Simple	8.26	ACUITE BB+ Stable Downgraded (from ACUITE BBB-)
Axis Bank	Not avl. / Not appl.	Term Loan	21 May 2024	Not avl. / Not appl.	30 Jun 2031	Simple	9.53	ACUITE BB+ Stable Downgraded (from ACUITE BBB-)
Federal Bank	Not avl. / Not appl.	Term Loan	28 Aug 2023	Not avl. / Not appl.	31 Jul 2027	Simple	14.31	ACUITE BB+ 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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