

Chowdary Spinners Private Limited

July 05, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	57.51 (Enhanced from 53.29)	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	57.51 (Rs. Fifty-Seven Crore and Fifty-One Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Chowdary Spinners Private Limited (CSPL) remains constrained by decline in the scale of operations in FY21 (Refers to period from April 01 to March 31), leverage capital structure and high debt coverage indicators, high reliance on working capital limits and volatility risk in raw material prices. The rating, however, derives strength from improvement in the profitability margins in FY21, satisfactory operational performance and experienced promoters.

Rating Sensitivities

Positive Factors

- Increase in the scale of operations along with improvement in the PBILDT margin above 11% on a sustained basis.
- Overall gearing going below 2x on a sustained basis.

Negative Factors

- Elongation in working capital cycle above 200 days on sustained basis.
- Any additional debt facility will further deteriorate the capital structure.

Detailed description of the key rating drivers

Key Rating Weaknesses

Decline in the total operating income in FY21

On consolidated level, the total operating income (TOI) of the company declined by 18.50% from Rs.141.51 crore in FY20 to Rs.115.32 crore in FY21 (Prov.). CSPL sells cotton lint to the subsidiary Pring Fashions Limited. On standalone level, the TOI of the company declined by 11.89% from Rs.157.00 crore in FY20 to Rs.138.33 crore in FY21 (Prov.). The decline in scale of operations was on account of impact of Covid19.

Leveraged capital structure and high debt coverage indicators

The overall gearing of the company on consolidated level remains leveraged because of higher debt levels. The total debt of the company increased from Rs.55.03 crore as on March 31, 2020 to Rs.80.02 crore as on March 31, 2021 on account of availing UGEC term loan of Rs.9.80 crore from Union Bank of India and high utilization of working capital limits. The overall gearing of the company deteriorated to 3.74x as on March 31, 2021 (Prov.) (2.70x as on March 31, 2020). The debt to equity ratio of the company deteriorated to 1.37x as on March 31, 2021 (Prov.) (1.09x as on March 31, 2020). The PBILDT interest coverage ratio (Consolidated) of the company improved to 1.78x in FY21 (Prov.) (1.59x in FY20) due to improvement in the operating profit. The debt coverage indicators such as total debt/GCA and total debt/PBILDT (Consolidated) remains high at 18.23x and 7.50x as on March 31, 2021 (Prov.) (17.03x and 6.17x as on March 31, 2020) due to higher debt levels.

Working capital intensive nature of operations

The company operates in a working capital-intensive industry. The average working capital utilization of the company remains high at above 95% for the past 12 months ending May 31, 2021. On consolidated level, the working capital cycle of the company deteriorated significantly to 180 days in FY21 from 116 days in FY20 on account of increase in the inventory days to 172 days in FY21 from 113 days in FY20. Since September to March is the peak cotton season and the subsidiary company was using the Key/Pledge term loan for stocking the cotton lint due to which the total inventories increased from Rs.37.49 crore as on March 31, 2020 to Rs.59.00 crore as on March 31, 2021 (Prov.). The company usually receives the payments from the customers within 40-60 days.

Raw material price volatility risk

CSPL procures more than 50% of its requirement of Kapas (which is its major raw material) from farmers of Telangana and the balance requirement is procured from Andhra Pradesh and Maharashtra. The company is exposed to risk of price volatility as prices of raw material are highly volatile in nature and depend upon factors like, area under production, yield for the year, demand and supply scenario, export quota decided by government and inventory carry forward of the last year. Another important factor in spinning industry is that it is cyclical due to the seasonal nature of cotton.

Key Rating Strengths

Improvement in the profitability margins in FY21

The profitability level of the company improved in FY21 because of efficiency in the operations. The PBILDT margin of the company improved by 298 bps from 6.31% in FY20 to 9.26% in FY21 (Prov.) on account of reduction in the cost of material

consumed. The cost of materials consumed contributed 67% of total cost of sales in FY20 against 62% of total cost of sales in FY21. The PAT margin of the company also improved by 168 bps from 0.23% in FY20 to 0.84% in FY21 (Prov.).

Satisfactory operational performance

During FY21, the operational performance of company has been satisfactory at 98% utilization level from spinning division and 38% utilization in ginning division. The weaving division which was installed two years back is fully stabilized and is giving higher production of value added fabrics. The sales from cotton yarn was Rs.72.84 crore and contributed the most at 52.71% of the total sales in FY21 (47.36% in FY20). The sales from the ginning division i.e. cotton lint, cotton oil seed etc was Rs. 54.50 crore which is 39.37% of the total sales in FY21 (46.05% in FY20). The sales from cotton fabric contributed Rs.8.95 crore which is 6.48% of the total sales (8.10% in FY20).

Experienced promoter and management team

Mr. V. V Prasad Chowdary, the promoter and the Managing director of the company has an experience of more than two decades in the textile industry. The company is also supported by the other directors Mr. N. Sreerama Krishna Rao and Mr. N Ganesh who are also having more than two decades of experience in the textile industry. The promoters of the company are resourceful and have infused funds in the form of equity and unsecured loans to support the operations whenever required.

Liquidity : Stretched

The liquidity of the company is stretched considering high utilization of working capital facility. The working capital utilization of the company is high at above 95% for the past 12 months ending May 31, 2021. The current ratio (Consolidated) of the company is moderated at 1.13x as on March 31, 2021 (Prov.) (1.16x as on March 21, 2020). Further, the company has availed UGEC term loan of Rs.9.80 crore from Union Bank of India in September 2020 to meet the working capital requirements. The company has met all the debt obligations for FY21. Considering the improving profitability level of the company in FY21 as a result of their recent investment in the spinning division and other automated technologies which has improved the operational efficiency, it is expected company will be able to generate adequate cashflows from operations to meet the debt obligations in FY21.

Analytical approach: Consolidated. CARE has analysed Chowdary Spinners Pvt Ltd's credit profile by considering consolidated financial statements (comprising CSPL and its subsidiaries) owing to financial and operational linkage between the parent and subsidiary. The 100% subsidiary under CSPL is Pring Fashions Ltd.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology- Manufacturing Companies](#)

[Rating Methodology - Consolidation](#)

[Rating Methodology- Cotton Textile](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity analysis of Non-financial sector entities](#)

About the Company

Chowdary Spinners Private Limited (CSPL) was incorporated in March 1994 as a closely held company promoted by Mr. Prasad Chowdary (Promoter, Chairman and Managing Director), the name of the company was converted into current nomenclature on December 30, 2019 as per section 18 of the Companies Act, 2013. CSPL has Ginning, Spinning and Weaving units at Tanuku, Andhra Pradesh. Cotton Bales & Cotton Oil seed are produced from ginning division, while Cotton Ring Spun Hank Yarn, Karded Single & Double Counts, Grey, Bleached & Dyed, Gassed, Mercerized, Amsler Fancy Slub Yarns in Cones are produced in spinning division. Mercerized fabrics are produced from weaving division. Ginning division has a per day production capacity of 350 bales each of 175 kgs, spinning unit has installed capacity of 20,400 spindles. With a view to move up in the value chain, CSPL has established a fully owned subsidiary, Pring Fashions Limited, in the year 2008, which is into marketing and sale of its cotton towels directly to the retail customers.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (Prov.)
Total operating income	141.51	115.32
PBILDT	8.93	10.67
PAT	0.33	0.96
Overall gearing (times)	2.70	3.74
Interest coverage (times)	1.59	1.78

A: Audited; Prov: provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	32.00	CARE BB-; Stable
Fund-based - LT-Term Loan	-	-	September, 2024	25.51	CARE BB-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Cash Credit	LT	32.00	CARE BB-; Stable	-	1)CARE BB-; Stable (26-Nov-20) 2)CARE BB-; Stable (05-Oct-20)	1)CARE BB-; Stable (25-Oct-19)	1)CARE BB-; Stable (18-Dec-18)
2.	Fund-based - LT-Term Loan	LT	25.51	CARE BB-; Stable	-	1)CARE BB-; Stable (26-Nov-20) 2)CARE BB-; Stable (05-Oct-20)	1)CARE BB-; Stable (25-Oct-19)	1)CARE BB-; Stable (18-Dec-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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