

Chola Spinning Mills Private Limited

July 13, 2022

Ratings

Facilities	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	158.06	CARE BB+; Stable; ISSUER NOT COOPERATING* (Double B Plus; Outlook: Stable ISSUER NOT COOPERATING*)	Rating moved to ISSUER NOT COOPERATING category; Outlook revised from Positive
Short Term Bank Facilities	2.61	CARE A4+; ISSUER NOT COOPERATING* (A Four Plus ISSUER NOT COOPERATING*)	Rating moved to ISSUER NOT COOPERATING category
Total Bank Facilities	160.67 (₹ One Hundred Sixty Creore and Sixty-Seven Lakhs Only)		

Details of instruments/facilities in Annexure-1.

Detailed Rationale & Key Rating Drivers

CARE Ratings Ltd. has been seeking no default statement from Chola Spinning Mills Private Limited to monitor the ratings vide e-mail communications dated May 05, 2022, July 04, 2022 among others and numerous phone calls. However, despite our repeated requests, the company has not provided the no default statement for monitoring the ratings. In line with the extant SEBI guidelines, CARE Ratings Ltd. has reviewed the rating on the basis of the best available information which however, in CARE Ratings Ltd.'s opinion is not sufficient to arrive at a fair rating. The rating on Chola Spinning Mills Private Limited bank facilities will now be denoted as **CARE BB+; Stable/CARE A4+; ISSUER NOT COOPERATING***.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above ratings.

The ratings assigned to the bank facilities of Chola Spinning Mills Private Limited (CSMPL) continue to be constrained by the moderate capital structure and stretched debt protection metrics due to the large debt funded capex which is nearing completion, volatility in raw material prices and exposure to customer and supplier concentration risk. The ratings however derive strength from vast experience of the promoters in textile industry and long track record of operations of the company.

Detailed description of the key rating drivers

At the time of last rating on September 06, 2021 the following were the rating strengths and weaknesses.

Key Rating Weaknesses

Exposure to supplier and customer concentration risk: CSMPL sources entire requirement of viscose from Grasim Industries, which is the major supplier of viscose in India, leading to limited pricing flexibility. CSMPL caters mainly to the autolooms, traders and hosiery manufacturers in markets around Tirupur, Erode, Surat and Kolkata. CSMPL has concentrated customer base with top 5 customers contributing to 58.07% (PY: 65.63%) of total income in FY21 (prov).

Moderate capital structure and debt protection metrics: The capital structure of the company stood moderate with overall gearing of 2.36x as on March 31, 2021 (Prov) which increased from 1.33x as on March 31, 2020 on account of incremental debt availed for the project and availment of covid emergency loans. The debt protection metrics also moderated with total debt/ GCA of 7.39x as on March 31, 2021 (Prov) as against 6.04x as on March 31, 2020.

Volatility in prices of raw material and yarn: The profitable margins of the company are susceptible to fluctuations in the prices of major raw materials such as viscose staple fibre in keeping with volatility in the prices of wood pulp (cellulose). Further, prices of viscose yarn are influenced by movement in prices of its substitutes i.e. cotton and polyester staple fibres. The PBILD margin of the company has been volatile in the in the range of 8.57% to 13.40% over the past three years ended FY21. The company sources major part of viscose from Grasim Industries which is the major supplier of viscose in India, leading to limited pricing flexibility.

Key Rating Strengths

Vast experience of the promoters in textile sector: Mr. P. Sengodan, the Director has six decades of experience in textile sector while his son Mr.V. Venkatachalam (Director) has 35 years of experience in the textile industry, managing various facets of business and trade. Mr. V. V Prasanth, son of Mr.Venkatachalam was inducted in the board in 2016, also manages the operations of the company.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Well established manufacturing facilities with long track record of operations: CSMPL produces 100% viscose and valueadded yarn like TFO, Slub yarn (14 slub attachments), High twister yarn etc in the count range of 10s to 30s (mainly 30s). CSMPL had commenced operations with 6048 spindles in the year 1996 and had increased its capacity over the years to 80,352 spindles as on March 31, 2021(Prov). On account of covid-19 induced lockdown, the operating income had moderated from Rs.239.20 crore in FY19 to Rs.225.10 crore in FY21(Prov.). Backed by increased demand, better operational efficiencies and sales realization, the PBILDT margin improved from 8.57% in FY20 to 13.40% in FY21(Prov.). The GCA increased from Rs.4.58 crore in FY20 to Rs.18.47 crore in FY21 and is expected to remain healthy in the medium term.

Nearing completion of large debt funded capex: During FY20, the company planned capacity addition of 25,920 spindles and 9 vortex machines at the total cost of Rs.137 crore funded by term loans of Rs.96 crore, promoter funds of Rs.14 crore and rest by accruals spanned over the next two years. Though there had been slowdown in execution of the project phases due to covid lockdown, the company accelerated the execution post lockdown and as on July 16, 2021 it had incurred Rs.129.4 crore (94.5% of total cost) funded by term loan of Rs.82 crore, promoter funds of Rs.26.40 crore and rest by accruals. The rest of the project which includes installation of 5 vortex machines is expected to be completed by end of August 2021 and commence operations from September 2021 without any cost and time over run. The company is expected to benefit out of the incremental capacities which would increase the production capacity from 35MT per day to around 60MT per day.

Liquidity: Stretched

Liquidity is stretched marked by tightly matched accruals of Rs.18.4 crore in FY21 against repayment obligation of Rs.14.6 crore in FY22 with moderate cash balance of Rs.1.78 crore as on March 31, 2021 (Prov). The operating cycle moderated from 62 days in FY20 to 72 days in FY21 due to increased inventory holding at the end of the year. The company had been sanctioned working capital limits of Rs.45 crore and the average utilization of the same stood at 70.41% over the past 12 months ended June 2021. The current ratio stood at at 1.46x (PY: 1.35x) as on March 31, 2021.

Analytical approach: Standalone

Applicable criteria

[Policy in respect of Non-cooperation by issuer](#)
[Policy on default recognition](#)
[Financial Ratios – Non financial Sector](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Credit Watch](#)
[Short Term Instruments](#)
[Manmade Yarn Manufacturing](#)
[Manufacturing Companies](#)

About the company

Chola Spinning Mills Private Limited (CSMPL) was incorporated in October 1996 and is engaged in manufacture and sale of 100% viscose yarn. CSMPL, located at Veppadai, Erode, has installed capacity of 80,352 spindles and 4 vortex machines as on March 31, 2021. The company produces 100% viscose yarn in the count range of 10s to 30s (mainly 30s) with entire sales domestically. CSMPL has 7 windmills of cumulative capacity 4.5 MW catering to around 60% of its power requirements.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	June 30, 2022 (UA)
Total operating income	226.39	NA	NA
PBILDT	30.33	NA	NA
PAT	2.59	NA	NA
Overall gearing (times)	4.63	NA	NA
Interest coverage (times)	2.59	NA	NA

A: Audited; UA: Un Audited; NA: Not available

Status of non-cooperation with previous CRA:

Not Applicable

Any other information:

Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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	IS IN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	March 2029	113.06	CARE BB+; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Cash Credit		-	-	-	45.00	CARE BB+; Stable; ISSUER NOT COOPERATING*
Non-fund-based - ST-BG/LC		-	-	-	2.61	CARE A4+; ISSUER NOT COOPERATING*

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	113.06	CARE BB+; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB+; Positive (06-Sep-21)	1)CARE BB+; Stable (06-Nov-20)	1)CARE BBB-; Negative (09-Oct-19)
2	Fund-based - LT-Cash Credit	LT	45.00	CARE BB+; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB+; Positive (06-Sep-21)	1)CARE BB+; Stable (06-Nov-20)	1)CARE BBB-; Negative (09-Oct-19)
3	Non-fund-based - ST-BG/LC	ST	2.61	CARE A4+; ISSUER NOT COOPERATING*	-	1)CARE A4+ (06-Sep-21)	1)CARE A4+ (06-Nov-20)	1)CARE A3 (09-Oct-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Not applicable

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

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

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

Contact us

Media contact

Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact

Name: Naveen S
Phone: 9944208330
E-mail: naveen.kumar@careedge.in

Relationship contact

Name: Pradeep Kumar V
Phone: +91-98407 54521
E-mail: pradeep.kumar@careedge.in

About us:

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