

Chowdary Spinners Private Limited

June 27 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	61.13 (Enhanced from 57.51)	CARE BB; Stable (Double B; Outlook: Stable)	Revised from CARE BB-; Stable (Double B Minus; Outlook: Stable)
Total Bank Facilities	61.13 (₹ Sixty-One Crore and Thirteen Lakhs Only)		

Details of instruments/facilities in Annexure-1.

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities of Chowdary Spinners Private Limited (CSPL) is on account of significant improvement in total operating income (TOI), coverage indicators and operating cycle during FY22 (refers to period from April 01 to March 31). The ratings are however, constrained by thin profitability margins, moderate capital structure, ongoing capex, inherent cyclicity associated with textile industry and dependence on vagaries of nature exposing the company to raw material price volatility risk. The rating however derives strength from experienced and resourceful promoters with established track record with stable industry.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Scaling up of operations with income above Rs.250 crore while maintaining PBILDT margin of above 7% on consistent basis
- Improvement in overall gearing below 1.75x

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Availing further debt resulting in deterioration of leverage and coverage indicators.
- Elongation of operating cycle more than 100 days.
- Significant decline in TOI or profitability, going forward

Detailed description of the key rating drivers

Key Rating Weakness

Thin profitability margins

The PBILDT margin declined from 8.43% in FY21 to 6.68% in FY22 on account of increase in raw material prices i.e., the candy prices increased from Rs 47,000 to ~ Rs 1.05 lakh coupled with increase in trading activity. Nevertheless, the PBILDT improved in absolute terms i.e, from Rs.9.76 crore in FY21 to Rs.13.44 crore in FY22 which also resulted in improved PAT margin from 0.42% in FY21 to 1.49% in FY22, still the profitability margins are remained thin.

Leveraged capital structure and moderate coverage indicators albeit improved

The capital structure of the company remains leveraged although the overall gearing ratio improved from 2.92x as on March 31, 2021 to 2.05x as on March 31, 2022 on account of increase in networth due to accretion of profits coupled with closure of key loans.

The coverage indicators of the company marked by total debt/GCA and PBILDT interest coverage continue to remain moderate at 9.37x and 2.18x in FY22 (21.27x and 1.57x in FY21) on account of higher working capital borrowings given working capital intensive operations.

Ongoing debt funded capex.

The company has undertaken project of Rs. 11 crore to replace the existing machinery along with addition of new machineries funded through term loan of Rs. 8 crore and remaining Rs. 3 crore from internal accruals. The company has imported the machinery, erection works are under process and expecting incremental revenue from Q2FY23 onwards. Under this implementation, the product portfolio was changed from hank yarn to mainly cone yarn, which is fetching higher margins by importing four autoconer machines. A contamination removal machine was also imported to produce contamination-free yarn which is in good demand, yielding a premium price

Inherent cyclicity associated with textile industry

Textile is a cyclical industry and closely follows the macroeconomic business cycles. Further, the prices of raw materials and finished goods are determined by global demand-supply scenario and are not limited to only domestic factors. Hence, any shift in macroeconomic environment globally would have an impact on domestic textile industry. The textile industry is also intensely competitive.

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

Dependence on vagaries of nature exposing the company to raw material price volatility risk

The profitability of spinning mills depends largely on the prices of cotton and cotton yarn which are governed by various factors such as area under cultivation, monsoon, international demand-supply situation, etc. The cotton being the major raw material of spinning mills, movement in cotton prices without parallel movement in yarn prices impact the profitability of the spinning mills. The cotton textile industry is inherently prone to the volatility in cotton and yarn prices

Key Rating Strengths**Experienced and resourceful promoters with established track record**

CSPL has established operational track record of more than two and half decades. 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 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 unsecured loans of Rs. 0.42 Crore as on March 31, 2022 to support the operations.

Significant improvement in scale of operations and profit level

The TOI of the company increased by 74% i.e., from Rs. 115 crore in FY21 to Rs. 201 crore in FY22 on account of better sales realisation coupled with increase in trading of lint.

The revenue from sale of lint increased from 28% in FY21 to 38% in FY22. Although, the TOI of the company increased, the PBILDT margin declined from 8.43% in FY21 to 6.68% in FY22 on account of increase in raw material prices i.e., the candy prices increased from 47,000 to ~1.05 lakh coupled with increase in trading activity where the margins are relatively lower than manufacturing activity. Nevertheless, the PBILDT improved in absolute terms i.e, from Rs.9.76 crore in FY21 to Rs.13.44 crore in FY21 which also resulted in improved PAT margin from 0.42% in FY21 to 1.49% in FY22. Furthermore, the margins are relatively better in cone yarn as compared to hank yarn and shifted from single yarn to dyed yarn, dyed fabrics and fancy slub yarn to improve its margins.

Improvement in operating cycle

The operating cycle of the company improved from 176 days in FY21 to 104 days in FY22 on account of improved collection and inventory days from 54 days and 168 days in FY21 to 26 days and 98 days in FY22, as the company has closed the ginning activity and shifted from hank yarn to cone yarn where the gestation period is relatively low leads to speedy movement of inventory resulted in decrease in the inventory level. The inventory level is high in FY21 as the company purchased cotton for trading in Pring Fashions Pvt Ltd during that year to take the opportunity of price appreciation and the same was sold in FY 22. But during FY 22, the company not to risk stocking cotton for trading as the prices were already ruling very high even in the very early harvesting season and therefore did not want to speculate. Furthermore, the company started realising payment from its customers within 15-20 days and makes the payment to its creditor (dealers/Agents) around 20 days and sometimes against cash payment.

Stable industry outlook

The Indian textiles market is expected to be worth more than US\$ 209 billion by 2029. India is the world's largest producer of cotton. Production stood at 360.13 lakh bales for the crop year October 2021-September 2022. Domestic consumption for the 2021-22 crop year is estimated to be at 335 lakh bales. Indian government has come up with several export promotion policies for the textiles sector. It has also allowed 100% FDI in the sector under the automatic route. The Rs. 10,683 crore (US\$ 1.44 billion) PLI scheme is expected to be a major booster for the textile manufacturers. The scheme proposes to incentivise MMF (man-made fibre) apparel, MMF fabrics and 10 segments of technical textiles products. Under the Union Budget 2022-23, the total allocation for the textile sector was Rs. 12,382 crore (US\$ 1.62 billion). Out of this, Rs.133.83 crore (US\$ 17.5 million) is for Textile Cluster Development Scheme, Rs. 100 crore (US\$ 13.07 million) for National Technical Textiles Mission, and Rs. 15 crore (US\$ 1.96 million) each for PM Mega Integrated Textile Region and Apparel parks scheme and the Production Linked Incentive Scheme.

Liquidity: Stretched

Liquidity is stretched marked with tightly matched accruals vis-à-vis debt repayment obligations. The average utilisation of the working capital limit remained high for the last 12 months ended May 31, 2022 at 95%. However, the working capital limits have been enhanced from Rs. 32 crore to Rs. 35 crore in March 2022 to provide additional buffer to liquidity. The current ratio of the company remained comfortable at 1.22x as on March 31, 2022.

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

Applicable Criteria[Policy on default recognition](#)[Consolidation](#)[Financial Ratios – Non financial Sector](#)[Liquidity Analysis of Non-financial sector entities](#)[Rating Outlook and Credit Watch](#)[Cotton Textile](#)[Manufacturing Companies](#)**About the Company**

Chowdary Spinners Private Limited (CSPL) was incorporated in March 1994, promoted by Mr. Prasad Chowdary (Promoter, Chairman and Managing Director). CSPL has spinning and weaving unit at Tanuku, Andhra Pradesh. The company has an 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 customers located at Andhra Pradesh, Telangana, Odisha and Bihar

Brief Financials (₹ crore)	March 31, 2020 (A)	March 31, 2021 (A)	March 31, 2022 (Prov.)
Total operating income	141.41	115.77	201.16
PBILDT	8.83	9.76	13.44
PAT	0.33	0.48	3.00
Overall gearing (times)	1.99	2.92	2.05
Interest coverage (times)	1.57	1.57	2.18

A: Audited; Prov.-Provisional;

Status of non-cooperation with previous CRA: NA**Any other information:** NA**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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	35.00	CARE BB; Stable
Fund-based - LT-Term Loan		-	-	Aug 31, 2028	26.13	CARE BB; Stable

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-Cash Credit	LT	35.00	CARE BB; Stable	-	1)CARE BB-; Stable (05-Jul-21)	1)CARE BB-; Stable (26-Nov-20) 2)CARE BB-; Stable (05-Oct-20)	1)CARE BB-; Stable (25-Oct-19)
2	Fund-based - LT-Term Loan	LT	26.13	CARE BB; Stable	-	1)CARE BB-; Stable (05-Jul-21)	1)CARE BB-; Stable (26-Nov-20) 2)CARE BB-; Stable (05-Oct-20)	1)CARE BB-; Stable (25-Oct-19)

*Long term/Short term.

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

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.

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