

Chowdary Spinners Limited

October 24, 2017

Rating

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	42.50	CARE BB-; Stable [Double B Minus] Outlook: Stable	Assigned
Total	42.50 (Rupees Forty Two crore and Fifty lakh only)		

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Chowdary Spinners Limited (CSL) are constrained by volatility of raw material prices, thin profitability margins, leveraged capital structure with weak debt coverage ratios and presence in highly fragmented industry. The rating is, however, underpinned by the established experience of the promoter, satisfactory operational performance, power availability and subsidy by Andhra Pradesh Government on power tariff, initiatives undertaken to move forward in the value chain, improvement in total operating income in FY17 and moderate working capital cycle.

The ability of the company to expand the scale of operation while improving the profit margin and manage working capital requirements efficiently while improving the capital structure are the key rating sensitivities.

Detailed description of the key rating drivers
Key rating strengths

Experienced promoter & management team: The promoter of SCL, Mr. Prasad Chowdary has an experience of more than two decades in the spinning industry. The company is supported by experience of Mr. Krishna Rao and Mr. Ganesh, who are directors of the company and have more than 10 years of experience in the cotton industry.

Satisfactory operational performance: The operational performance of the company has been satisfactory with capacity utilization of almost full in the last three years. Due to excess supply in the national and international market, the prices of cotton yarn have reduced during the past 2-3 years. Therefore the company focused on cotton ginning business along with sale of other by-products (cotton lint and seeds) which enabled it to expand the scale of operation in a subdued industrial scenario.

Power availability and subsidy by Andhra Pradesh Government on power tariff: Spinning is a power intensive activity and with the reorganization of Andhra Pradesh (A.P.) in June 2014, the power scenario has significantly improved in the State as most of the power plants are located in the AP region and there is sufficient power available for the industries located in the region. The company also receives power subsidy from the State Government.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Initiatives undertaken to move forward in the value chain: Given the slowdown in the cotton ginning and spinning industry and low product differentiation in the spinning business, the company, has taken various initiatives to differentiate its product, increase the bargaining power amongst the clients and move up the value chain. It has set up a small dyeing and mercerization unit wherein it is supplying dyed cotton yarn to the weavers which has resulted in saving in the working capital requirement of the weavers and has enabled the company to establish a strong clientele

This apart, through its whole owned subsidiary; Pring Fashions Limited, the company has also started production of dyed cotton towels which would be catered directly to retail customers.

Improvement in total operating income albeit thin profitability margins: The total operating income of the company has increased at a CAGR of 23.68% during FY15-FY17 and registered a y-o-y growth of 42.00% in FY17 over FY16. The same has been mainly due to increase in the revenue contribution from cotton lint as well as seeds segment as the cotton ginning business has been subdued for the past 2-3 years. However, given the increased contribution of low value additive products (cotton lint and seeds), the PBILDT margin has been on the lower side and weakened by 141 bps from 6.69% during FY16 to 5.28% during FY17. The PAT level and cash accrual has also been relatively low.

Moderate working capital cycle: The company operates in a working capital intensive industry but the operating cycle has remained moderate during the last three years and witnessed marginal improvement in FY17 (to 60 days) from FY16 (64 days).

Key rating Weaknesses

Raw material price volatility risk: The company is exposed to risk of price volatility as prices of raw material i.e. raw cotton 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. Thus, aggregate effect of both the factors results in exposure of spinners to price volatility risk.

Leveraged capital structure and weak debt coverage ratios: The company has high reliance on debt which has resulted in adverse capital structure. The overall gearing ratio has been weak and further deteriorated from 2.66x on March 31, 2016 to 3.22x as on March 31, 2017 on account of additional debt availed to meet the growing working capital requirement of the company. Given the requirement of high inventory holding; the company is dependent upon high working capital requirement. The high debt level vis-à-vis the low profit and cash accrual has consequently resulted in weak debt coverage ratios.

Presence in highly fragmented industry: CSL is engaged in the spinning of cotton yarn which involves very limited value addition and hence results in thin profitability. Moreover, on account of large number of units operating in cotton yarn business, the competition is very high resulting in high fragmentation and further restricts the profitability.

Analytical approach: Standalone

Applicable Criteria

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

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

[Rating Methodology-Manufacturing Companies](#)

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

[Sector specific methodologies-Cotton Yarn](#)

About the Company

Chowdary Spinners Limited (CSL) was incorporated in March 1994. SSML is a closely held company founded by Mr. Prasad Chowdary (Promoter, Chairman and Managing Director), who has more than two decades of experience in the cotton yarn industry. The company has ginning and spinning facilities at its manufacturing unit at Tanuku, West Godavari, Andhra Pradesh. As on date, the company has an installed capacity of 20,400 spindles.

During 2008, the company has established a fully owned subsidiary, Pring Fashions Limited, in order to market its products directly to retail customers.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	106.19	150.80
PBILDT	7.10	7.96
PAT	0.06	0.28
Overall gearing (times)	2.66	3.22
Interest coverage (times)	1.43	1.45

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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

Analyst Contact:

Name: Ms Puja Jalan

Tel: 040 40102030

Cell: +91 9160001511

Email: puja.jalan@careratings.com

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	-	30.00	CARE BB-; Stable
Fund-based - LT-Term Loan	-	-	June 2020	12.50	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	30.00	CARE BB-; Stable	-	-	-	-
2.	Fund-based - LT-Term Loan	LT	12.50	CARE BB-; Stable	-	-	-	-

CONTACT**Head Office Mumbai****Ms. Meenal Sikchi**

Cell: + 91 98190 09839

E-mail: meenal.sikchi@careratings.com**Ms. Rashmi Narvankar**

Cell: + 91 99675 70636

E-mail: rashmi.narvankar@careratings.com**Mr. Ankur Sachdeva**

Cell: + 91 98196 98985

E-mail: ankur.sachdeva@careratings.com**Mr. Saikat Roy**

Cell: + 91 98209 98779

E-mail: saikat.roy@careratings.com**CARE Ratings Limited****(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com**AHMEDABAD****Mr. Deepak Prajapati**32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015

Cell: +91-9099028864

Tel: +91-79-4026 5656

E-mail: deepak.prajapati@careratings.com**BENGALURU****Mr. V Pradeep Kumar**Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91 98407 54521

Tel: +91-80-4115 0445, 4165 4529

Email: pradeep.kumar@careratings.com**CHANDIGARH****Mr. Anand Jha**SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062

Chandigarh

Cell: +91 99888 05650

Tel: +91-172-5171 100 / 09

Email: anand.jha@careratings.com**CHENNAI****Mr. V Pradeep Kumar**Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.

Cell: +91 98407 54521

Tel: +91-44-2849 7812 / 0811

Email: pradeep.kumar@careratings.com**COIMBATORE****Mr. V Pradeep Kumar**

T-3, 3rd Floor, Manchester Square

Puliakulam Road, Coimbatore - 641 037.

Tel: +91-422-4332399 / 4502399

Email: pradeep.kumar@careratings.com**HYDERABAD****Mr. Ramesh Bob**401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.

Cell : + 91 90520 00521

Tel: +91-40-4010 2030

E-mail: ramesh.bob@careratings.com**JAIPUR****Mr. Nikhil Soni**304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.

Cell: +91 - 95490 33222

Tel: +91-141-402 0213 / 14

E-mail: nikhil.soni@careratings.com**KOLKATA****Ms. Priti Agarwal**3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.

Cell: +91-98319 67110

Tel: +91-33- 4018 1600

E-mail: priti.agarwal@careratings.com**NEW DELHI****Ms. Swati Agrawal**13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.

Cell: +91-98117 45677

Tel: +91-11-4533 3200

E-mail: swati.agrawal@careratings.com**PUNE****Mr. Pratim Banerjee**9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.

Cell: +91-98361 07331

Tel: +91-20- 4000 9000

E-mail: pratim.banerjee@careratings.com**CIN - L67190MH1993PLC071691**