

## Chowdary Spinners Limited

October 25, 2019

**Ratings**

Facilities	Amount (Rs.crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	50.32	<b>CARE BB-; Stable</b> <b>(Double B Minus; Outlook: Stable)</b>	Reaffirmed
<b>Total facilities</b>	<b>50.32</b> <b>(Rs. Fifty crore and Thirty-Two lakhs Only )</b>		

*Details of facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The rating assigned to the bank facilities of Chowdary Spinners Limited (CSL) is constrained by thin profitability margins due to limited value addition in ginning and spinning process, leveraged capital structure, weak debt coverage indicators, working capital intensive nature of operations and volatility risk in raw material prices. The rating, however, are underpinned by marginal improvement in total operating income during FY19 (refers period from April 01 to March 31), satisfactory operational performance, moderate interest coverage indicators, continues capex initiatives undertaken by the management between FY18-FY20 to move forward in the value chain and experienced promoter.

**Rating sensitivities:****Positive factors:**

- Improvement in the PBILDT margins on a sustained basis over 10%, considering the benefits derived post completion of the modernization of the existing plant and commencement of operations at newly set up weaving project.
- Improvement in gross cash accruals beyond Rs.10.00 crore on a sustainable basis.
- Utilization of working capital limits at moderate levels of about 80% thus providing sufficient liquidity cushion.

**Negative sensitivities:**

- Overall gearing going beyond 3.00x on sustained basis.
- Significant increase in the price of raw cotton.

**Detailed description of the key rating drivers****Key Rating Weaknesses****Stable albeit thin profitability margins**

The profitability margin of the company remains thin because of limited value addition in the ginning and spinning business. On consolidated level, the PBILDT margin and PAT margin of the company remained stable at 5.91% and 0.56% during FY19 (5.82% and 0.39% during FY18) respectively. Further, During 5MFY20 the company attained PBILDT margin of 14.18% (Unaudited) realising the benefits post the completion of the modernization project and weaving project which is expected to improve the profitability margins.

**Leveraged capital structure**

The overall gearing of the company on consolidated level remains leveraged but marginally improved to 2.90x as on March 31, 2019 from 3.08x as on March 31, 2018 due to scheduled repayment of term loan and accretion of the profit to the net worth of the company. The total debt level of the company is on higher side as the company availed new term loan for the on-going capex.

**Weak debt coverage indicators**

On consolidated level, the debt coverage indicators such as Total debt/GCA and total debt/PBILDT are high at 20.63x and 7.11x as on March 31, 2019 as against 22.00x and 7.47x as on March 31, 2018 due to high total debt levels.

**Working capital intensive nature of operations**

The company operates in a working capital intensive industry. On consolidated level, the operating cycle of the company elongated from 117 days in FY18 to 136 days in FY19 due to high inventory days. The company stacks kapas during the harvesting season to avoid volatility in the input prices. The average inventory days remained high at 126 days during FY19 (107 days during FY18). As most of the purchases from local farmers are in cash, the company has to rely on bank borrowings to meet its working capital requirements. The average working capital utilization of the company for the past 12 months ending August 31, 2019 stood almost full.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

**Raw material price volatility risk**

CSL 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. However the company sells excess cotton lint to its own subsidiary Pring Fashions Limited which stocked this inventory to take advantage of the expected price increase with the help of warehouse financing – this would help in mitigating the raw material price volatility.

**Key Rating Strengths****Marginal improvement in the total operating income during FY19**

On the consolidated level, the total operating income of the company increased marginally by 1.45% from Rs. 137.44 crore during FY18 to Rs. 139.43 crore during FY19. Further, the company sells cotton lint to its subsidiary Pring Fashions Limited for its trading activity due to which on standalone level the company registered total operating income of Rs. 155.07 crore during FY19 which is 1.22% increase from Rs.153.19 crore during FY18. On consolidated level, the company achieved PAT of Rs. 0.79 crore during FY19 as against PAT of Rs. 0.53 crore during FY18.

**Satisfactory operational performance**

During FY19, the operational performance of company has been satisfactory at 86% utilization level from spinning division and 51% utilization level from ginning division. During FY19, the sales from cotton yarn is Rs. 75.76 crore which contributed 48.94% (49.11% during FY18) of the total sales followed by sales from Ginning division i.e. cotton lint, cotton oil seed etc. at Rs. 72.21 crores contributing 46.95% (47.33% during FY18) of the total sales. The sale from cotton fabric is Rs. 6.38 crore which contributes 4.12% (3.55% during FY18) of the total sales.

**Moderate interest coverage indicators**

The PBILDT interest coverage ratio of the company is stable and moderate at 1.55x during FY19 as against 1.54x during FY18 due to less interest expense.

**Initiatives undertaken to move forward in the value chain in spinning division**

In FY18-19, the company undertook a modernisation project with total cost of Rs. 5.60 crore which was funded by term loan of Rs.4.21 crore and remaining Rs.1.39 crore was funded by infusion of unsecured loans from promoters and the entire capex was completed by February, 2019. Under this project the company has converted the entire 20,400 spindles of the unit to compact yarn system, installed spindle monitoring system on ring frames, installed Automatic Bale Plucker machine etc. These recent developments in the spinning division are expected to improve the quality of yarn and increase the productivity level by 10%.

**Capex for undertaking weaving project and improving operational efficiency**

In the FY20, the company is undertaking two projects, the weaving project already completed by July 2019 and installation of Autodoffer machines for ring frames is planned to be completed by December 2019. Under weaving project the company has commissioned 12 Airjet Looms for its weaving activity. Earlier the company used to outsource its weaving activity to a small power loom weavers where the quality of the fabric was not satisfactory. However with setting up of the new technology pertaining to weaving activity, the company is able to produce new designs in fabrics at low manufacturing cost with minimal wastage. The total cost incurred for the capex is Rs.6.00 crore which was funded by term loan of Rs.4.39 crore and remaining Rs 1.61 crore by infusion of unsecured loans from promoters. And the company is also proposing to purchase 17 Q-Doff model Autodoffer machines. These machines are for automating the doffing process on the existing 17 ring frames in the spinning unit of each of 1,200 spindles. Installation of Autodoffer machines is expected to decrease the labour cost, reduce the doffing time by giving direct productivity gain of 2.5%.

**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: Moderate** - The current ratio of the company is moderate at 1.06x as on March 2019(1.17x as on March 2018). The liquidity position of the company is marked by tightly matched accruals to debt obligations, highly utilized bank limits and modest cash balance. During FY19, the gross cash accruals and cash flow from operations are Rs.2.84 crore and Rs. 13.13 crore respectively. Further, the promoters of the company are resourceful and infusing funds in the form of unsecured loans

for funding ongoing capex. The company is generally meeting its debt obligations by utilizing the cash flow from operations. Further, considering the same the company is expected to meet the repayment obligations due remaining two quarters of FY20 with cash flows generated from operations.

**Analytical approach:** Consolidated

**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, a closely held company promoted by Mr. Prasad Chowdary (Promoter, Chairman and Managing Director), who has more than two decades of experience in textile industry. CSL 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, CSL 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)	FY18 (A)	FY19 (A)
Total operating income	137.44	139.43
PBILDT	8.00	8.25
PAT	0.53	0.78
Overall gearing (times)	3.08	2.90
Interest coverage (times)	1.54	1.55

\*A-Audited

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

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

### Annexure-1: Details of 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	-	-	April, 2025	20.32	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	30.00	CARE BB-; Stable	-	1)CARE BB-; Stable (18-Dec-18)	1)CARE BB-; Stable (06-Mar-18) 2)CARE BB-; Stable (24-Oct-17)	-
2.	Fund-based - LT-Term Loan	LT	20.32	CARE BB-; Stable	-	1)CARE BB-; Stable (18-Dec-18)	1)CARE BB-; Stable (06-Mar-18) 2)CARE BB-; Stable (24-Oct-17)	-

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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