

## Chowdary Spinners Limited

December 18, 2018

### Rating

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	53.96	<b>CARE BB-; Stable (Double B Minus; Outlook: Stable)</b>	<b>Reaffirmed</b>
<b>Total Facilities</b>	<b>53.96 (Rupees Fifty three crore and ninety six lakh only)</b>		

*Details of facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The reaffirmation in ratings assigned to the bank facilities of Chowdary Spinners Limited (CSL) continues to derive strength from the experience of the promoter and management team, satisfactory operational performance, improvement in profit margins and initiatives undertaken to move forward in value chain. The ratings also take into consideration the proposed expansion plan of CSL to install Spinning Balance machinery and implementation of weaving project (under TUFs) in FY19. However, the ratings are constrained by decline in total operating income, leveraged capital structure, volatility of raw material prices and presence in highly fragmented industry.

The ability of the company to increase its scale of operations with improvement in profit margins and managing working capital requirements efficiently to generate the envisaged cash flows are the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key rating Weaknesses

**Leveraged capital structure of the company and weak debt coverage ratios:** The overall gearing of the company has marginally improved from 3.21x as on March 31, 2017 to 3.01x as on March 31, 2018 mainly due to equity infusion of Rs. 5 crore in FY18 and accretion of profits. CSL's PBILDT interest coverage ratios have improved and remained satisfactory at 1.55x in FY18 (1.46x during FY17). However, given the need of high inventory holding and high dependence on working capital funds coupled with marginal improvement in margins in FY18, low cash accrual resulted in weak debt coverage ratios.

**Moderate working capital cycle:** CSL's operating cycle has almost doubled from to 117 days in FY18 from 65 days in FY17 on account of increase in inventory days. Average inventory days increased mainly due to stacking of kapas during harvesting season to avoid volatility in input prices during off-season. The liquidity position of the company was weak. The cash and bank balance as on March 31, 2018 was Rs. 0.70 crore.

**Raw material price volatility risk:** 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. In FY18, the company sold excess cotton during the harvesting season to its own subsidiary Pring Fashions Limited which stocked this inventory to take advantage of the expected price increase – this would help in tackling the issue of raw material price volatility. The government decision on MSP for cotton to support farmers may have an impact on the profitability to the extent the company's ability to pass on the input prices to the customers.

**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.

#### Key rating Strengths

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

**Improvement in profitability margins albeit decline in operating income:** On consolidated level, even though the company's total operating income has grown at a CAGR of around 12% during FY16-FY18, it has reduced from Rs.152.63 crore in FY17 to Rs.137.44 crore in FY18 mainly because of sale of cotton lint to its subsidiary Pring Fashions Limited for its trading activity. On a standalone basis, total operating income of CSL has increased marginally by 1.58% from Rs.150.80 crore in FY17 to Rs. 153.19

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

crores in FY18. The company's PBILDT margins improved to 5.82% in FY18 (5.23% in FY17) on account of lower cost of materials.

**Satisfactory operational performance:** The operational performance of the company has been satisfactory with capacity utilization of almost full in the last three years, which has been supported by uninterrupted power supply by Andhra Pradesh Energy utilities. The company has been focussing on value added products having high profit margins which enabled them to improve its realization.

**Subsidy under Technology Upgradation Fund Scheme (TUFS):** The firm is eligible to receive subsidy under TUFS which helps the firm to access debt at a lower cost. CSL received an interest subsidy of Rs.0.14 crore in FY18. It will also be receiving interest subsidy on the loan procured for the proposed weaving project in FY19.

**Initiatives undertaken to move forward in the value chain:** The Company is in the process of installing Spinning Balance Machine (SBM) and implementing weaving plant (under Textile Upgradation Scheme). The SBM will enhance productivity, quality thereby resulting in increase in profitability. Further, weaving plant enables them to have forward integration thereby enabling the company to sell value added products having high profitability margins.

**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. 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)	FY17 (A)	FY18 (A)
Total operating income	152.63	137.44
PBILDT	7.99	8.00
PAT	0.28	0.53
Overall gearing (times)	3.21	3.08
PBILDT Interest coverage (times)	1.46	1.55

#### List of subsidiaries used for consolidation:

1. Pring Fashions Limited

**Status of non-cooperation with previous CRA:** The ratings assigned to the bank facilities of Chowdary Spinners Limited have been withdrawn by CRISIL Ltd (CRISIL B+; Stable/INC) vide its press release dated February 26, 2018 on account lack of adequate information to carry out rating surveillance.

**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](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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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	-	-	March 2025	23.96	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	30.00	CARE BB-; Stable	-	1)CARE BB-; Stable (06-Mar-18) 2)CARE BB-; Stable (24-Oct-17)	-	-
2.	Fund-based - LT-Term Loan	LT	23.96	CARE BB-; Stable	-	1)CARE BB-; Stable (06-Mar-18) 2)CARE BB-; Stable (24-Oct-17)	-	-

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