

Chowdary Spinners Private Limited

November 26, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	53.29 (Enhanced from 50.32)	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Reaffirmed
Total Facilities	53.29 (Rs. Fifty-Three Crore and Twenty-Nine Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Chowdary Spinners Private Limited (CSPL) is constrained by leverage capital structure, thin PAT margin, working capital intensive nature of operations and volatility risk in raw material prices. The rating is also tempered by the impact of COVID-19 on the operations of the company. The rating, however, derives strength from the stable total operating income and PBILDT margin during FY20 (Refers to period from April 01 to March 31), satisfactory operational performance, experienced promoters and capex initiatives undertaken by the management between FY18-20 to move forward in the value chain.

Rating Sensitivities

Positive Factors

- Increase in the scale of operations along with improvement in the PBILDT margin above 8% on a sustained basis.
- Overall gearing going below 2x on a sustained basis.

Negative Factors

- High dependence on fund based limits resulting in limited liquidity cushion.
- Elongation in working capital cycle above 150 days on sustained basis.
- Decline in the realisation of sales

Detailed description of the key rating drivers

Key Rating Weaknesses

Leveraged capital structure

The overall gearing of the company on consolidated level remained leveraged but improved to 2.65x as on March 31, 2020 (Prov.) (2.90x as on March 31, 2019) due to scheduled repayment of term loan. The total debt level of the company is on higher side since the company's reliance on working capital borrowings were high and the company also availed new term loan for the on-going capex.

Thin PAT margins

On consolidated level, the PAT margin of the company is very thin at 0.48% during FY20 (Prov.) (0.56% during FY19) due to high interest and depreciation expenses.

Working capital intensive nature of operations

The company operates in a working capital intensive industry. On consolidated level, the operating cycle of the company improved but remains high at 118 days during FY20 (Prov.) (136 days during FY19) due to improvement in the inventory days. The company stacks kapas during the harvesting season to avoid volatility in the input prices. The average inventory days remains high at 113 days during FY20 (Prov.) (126 days during FY19). 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, 2020 stood high at 95%. As per the debtors policy the company receives the payments from the customers within 30-40 days. And the average collection period remains at 46 days in FY20 (Prov.) (51 days in FY19).

Raw material price volatility risk

CSPL 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.

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

Impact of Covid-19 on the operations of the company

The entire economic activity of the country was disrupted due to the ongoing COVID19 pandemic and the Government of India had imposed lock down to curb the spread of COVID -19 pandemic from March 25, 2020. Due to the aforementioned reason the company has shut down the operations for about 30 days and revived the operations from the fourth week of April 2020. Since about 99% of labors working in CSPL are localite and were available when the company resumed the operations, the company was able to operate with 90% of the capacity from the third week of May 2020. The company has availed moratorium for six month period from March 2020 to August 2020 for both the term loan and cash credit facilities. Further the company has also availed CELC (Covid Emergency Line of Credit) term loan of Rs.3.00 crore for working capital requirements

Key Rating Strengths**Stable total operating income and profitability margins during FY20**

On the consolidated level, the Total Operating Income (TOI) of the company remains stable and increased marginally by 1.63% from Rs. 139.43 crore during FY19 to Rs. 141.71 crore during FY20 (Prov.). The PBILDT margin of the company also remains stable and improved by 34 bps to 6.25% during FY20 (prov.) (5.91% during FY19). The company sells cotton lint to its subsidiary Pring Fashions Limited. On standalone level, the company achieved TOI of Rs.156.78 crore during FY20 (Prov.) as against Rs.155.07 crore during FY19.

Satisfactory operational performance

During FY20, the operational performance of company has been satisfactory at 90-95% utilization level form spinning division. However, the utilization level from ginning division was 30-40% due unavailability of quality cotton. The sales from Ginning division i.e. cotton lint, cotton oil seed etc. was Rs. 74.33 crores contributing 47.47% (46.95% during FY19) followed by sales from cotton yarn which was Rs. 74.17 crore and contributed 47.36% (48.94% during FY19) of the total sales. The sale from cotton fabric was Rs. 8.10 crore which contributed 5.17% (4.12% during FY19) of the total sales.

Capex initiatives undertaken to move forward in the value chain

Given the low product differentiation in the spinning business, the company has taken various initiatives to differentiate its products, increase the bargaining power amongst the clients and move up the value chain. In the FY18-19, the company undertook modernization project of converting entire 20,400 spindles of the unit to compact yarn system which has improved the quality of yarn produced in the spinning division. In the FY20, the company has undertaken weaving project and commissioned 12 Airjet looms from Picanol, Belgium for its weaving activity. After 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 Rs 1.48 crore by infusion of unsecured loans from promoters and remaining Rs.0.13 crore from internal accruals. The weaving project was completed in July 2019. The company has also purchased 17 Q-Doff model Autodoffer machines during FY20. These machines are for automating the doffing process on the existing 17 ring frames in the spinning unit of each of 1,200 spindles. With the installation of the Autodoffers, the doffing time reduces and improves the productivity. The total cost for the capex is Rs. 3.78 crore which will be funded by term loan of Rs. 2.84 crore and remaining Rs.0.94 will be funded by infusion of unsecured loans from promoters. As on September 23, 2020, the company has incurred Rs.3.04 crore and the remaining Rs.0.74 crore will incurred by October 2020 which will be funded by the disbursement of the term loan.

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 : Stretched

The liquidity profile of the company remains stretched considering high reliance on working capital requirements. The average working capital utilization of the company remains high at 95% during the past 12 months ending August 31, 2020. The company was also availing additional adhoc limits whenever required to meet the working capital demand. The company has availed moratorium for six month period from March 2020 to August 2020 for both the term loan and cash credit facilities. Further the company has also availed CELC (Covid Emergency Line of Credit) term loan of Rs.3.00 crore for working capital requirements. Considering the envisaged improvement in the realization as result of benefits reaped from modernization project in the spinning division and weaving project in the weaving division, the profitability margins are expected to improve during FY21 and the company is expecting to meet its debt obligations for FY21 with the help of generated gross cash accruals or cash flow from operations. During FY20 (Prov.), the company generated GCA of Rs.3.34

crore and cash flow from operation is Rs.15.97 crore. The promoters of the company are also resourceful and are infusing funds in the form of equity share capital and unsecured loans.

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

Applicable Criteria

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

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

[Rating Methodology - Manufacturing Companies](#)

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

[Rating Methodology- Textile Sector](#)

[Liquidity analysis of Non-financial sector entities](#)

About the Company

Chowdary Spinners Private Limited (CSPL) was incorporated in March 1994 as a closely held company promoted by Mr. Prasad Chowdary (Promoter, Chairman and Managing Director), the name of the company was converted into current nomenclature on December 30, 2019 as per section 18 of the Companies Act, 2013. CSPL 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, 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 retail customers.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (Prov.)
Total operating income	139.43	141.71
PBILDT	8.25	8.86
PAT	0.79	0.68
Overall gearing (times)	2.90	2.65
Interest coverage (times)	1.55	1.61

A: Audited; Prov.: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Covenants of rated instrument / facility: 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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	32.00	CARE BB-; Stable
Fund-based - LT-Term Loan	-	-	September, 2025	21.29	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	32.00	CARE BB-; Stable	1)CARE BB-; Stable (05-Oct-20)	1)CARE BB-; Stable (25-Oct-19)	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	21.29	CARE BB-; Stable	1)CARE BB-; Stable (05-Oct-20)	1)CARE BB-; Stable (25-Oct-19)	1)CARE BB-; Stable (18-Dec-18)	1)CARE BB-; Stable (06-Mar-18) 2)CARE BB-; Stable (24-Oct-17)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple

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

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