

Rating Rationale

25 Oct 2019

Chenniappa Yarn Spinners Private Limited

Brickwork Ratings reaffirms ratings for the Bank Loan Facilities of Rs.32.53Crores of Chenniappa Yarn Spinners Private Limited. ('CYSPL' or the 'Company')

Particulars

Facility**	Amount (Rs Cr)		Tenure	Rating*	
	Previous (Rs. Crs)	Present (Rs. Crs)		Previous	Present
Fund Based					
Open Cash Credit	20.50	20.50	Long Term	BWR BB+/Stable	BWR BB+/Stable
Term Loan	10.62	5.90			
Non Fund Based					
Letter of Credit	6.00	6.00	Short Term	BWR A4+	BWR A4+
Bank Guarantee	0.13	0.13			
Total	37.25	32.53	INR Thirty Two Crores And Fifty Three Lakhs Only		

*Please refer to BWR website www.brickworkratings.com for definition of the ratings ; # Two Way Interchangeability of Rs.2.00Crores between LC and OCC

** Details of Bank facilities are provided in Annexure I

Rating Action/Outlook

The reaffirmation of ratings factors the consistent operational and financial performance of the company. The ratings continue to factor the promoters' extensive experience in the textile industry, established relationships with customers and locational advantages. The ratings remain constrained by the moderate financial risk profile, susceptibility of profitability to fluctuations in raw material prices, intense competition in the highly fragmented textile processing industry and geographical concentration risk.

The 'Stable' outlook indicates a low likelihood of rating change over the medium term. BWR expects that **Chenniappa Yarn Spinners Pvt Ltd's** business risk profile will be maintained over the medium term. The outlook may be revised to Positive if the revenues and profit show sustained improvement leading to improvement in cash accruals and strengthening of financial risk profile. The outlook may be revised to Negative if the revenues go down, profit margins show lower than expected figures, working capital cycle is stretched pressurizing the liquidity position or any major debt funded capital expenditure leads to stress on the financial risk profile of the company.



Key Rating Drivers

Credit Strengths:

Experienced management and established track record

Chenniappa Yarn Spinners Private Limited has an operational track record of over three decades in the textile industry. The company benefits from the promoters' extensive experience in the textile industry, understanding of the industry dynamics and established relationships with customers and suppliers.

Established relationship with customers

Over the years, the promoters have fostered relationships with leading domestic retailers and export houses, establishing a strong client base. The company has been getting repeat business from these clients on a sustained basis, which has facilitated growth in its scale of operations. This also reflects favourably on the company's track record and competitive positioning in the yarn manufacturing sector. Some of the key clients are (K)shethra Exports, Vigneshwara Agency, Santhana Laxmi Traders, S.P.Text and Balu Exports. The top 5 clients contribute ~17% of total sales.

Locational advantages

The company is located at Tirupur, which is a major textile hub. This provides location specific advantages in terms of easy accessibility to raw materials, clientele and availability of labour.

Credit Challenges:

Moderate financial risk profile

CYSPL's financial risk profile is moderate with modest revenue, thin profitability, moderate gearing and debt protection metrics. Net sales improved to Rs.74.17 Crs for FY19 as against Rs. 68.90 Crs in FY18. PAT was low at Rs. 0.99 Crs in FY19 as against Rs. 0.96Crs during FY 18. Interest coverage was moderate at 1.87 times as on 31 Mar 2019 (1.77 times as on 31 Mar 2018). Debt coverage was low at 0.93 times as on 31 Mar 2019 (1.09 times as on 31 Mar 2018). Tangible Net Worth was Rs. 22.48Crores as on March 31, 2019. Gearing was moderate at 1.36 times as on 31 Mar 2019.

Susceptibility of profitability to volatility in raw material price

Textile Industry's profitability margins are highly correlated with fluctuations in raw material prices and are susceptible to various risks like need for adherence to quality, availability during a particular period etc.,

Highly competitive nature of the industry and modest scale of operations

The company operates in a highly competitive business environment, facing stiff competition from both organised and unorganised players. The intense competition in the industry continues to limit its bargaining power/ pricing ability, thereby constraining its margins. Further, the scale of operations of the company is comparatively modest.

Geographical and customer concentration

The top 5 customers viz (K)shethra Exports, Vigneshwara Agency, Santhana Laxmi Traders, S.P.Text and Balu Exports contribute ~17% of company's revenue. Revenues and earnings depend on the performances of its key customers, apart from other factors such as regulations and duty structures across markets. The risk is mitigated to an extent by the established relationships with its key clientele and addition of new customers in



recent fiscals. Moreover, the majority of the clientele of CYSPL are based in and around Tirupur exposing the company to geographical concentration risk. Acquiring and establishing relationships with clients across various states would mitigate this risk to a certain extent.

Analytical Approach and Applicable Rating Criteria

For arriving at its ratings, BWR has considered the standalone financials of **Chenniappa Yarn Spinners Pvt Ltd** and has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale). The company does not have any subsidiaries.

Rating Sensitivities

Positive:

- Sustained improvement in scale of operations
- Specific credit metrics that could lead to an upgrade of CBC's ratings include (1) Total Debt/TNW below 1.00 times on a sustained basis, (2) DSCR and ISCR greater than 2.0 times on a sustained basis.

Negative :

- Gearing level exceeding 3 times
- Decline in profitability - Operating margin below 5.00% and net margin below 0.50%, due to pricing pressures in a highly competitive industry

Liquidity Position: Adequate

Approximately 80% to 90% of working capital has been utilized hence the company has access to additional working capital limits. Current ratio is moderate at 1.23 times in in FY19. Cash and Cash Equivalents of the company is at Rs.0.88Cr in FY19 . Debt Repayments for FY20 & FY21 are in the range of Rs.2.00Cr to Rs.2.50Cr respectively which are expected to be serviced from Cash Accruals.

About the Company

Chenniappa Yarn Spinners Private Limited (CYSPL) was established in February 2005 at Tirupur, Tamil Nadu. CYSPL is a manufacturer of yarn (20,400 spindles (18 ring frames) with autoconers. It manufactures yarn in the range of 20s to 45s counts and knitted fabrics (9 machines) and trading of knitted cloths. The main products of the company are semi-combed, combed and carded cotton yarns, cotton slub yarns, Lycra single, melange yarn, jersey knitted fabrics, rib fabrics, interlock fabrics, fleece fabrics, auto stripers and comber noils (waste sales). In addition to the spinning of yarn, CYSPL is also engaged in knitting of garments of various fabric types such as single jersey, rib interlock, 3 thread fleece, 2 thread fleece, pique polo and punto roma. Presently, the company has 20,400 spindles as on date with capacity to produce 12000 kgs of ring-spun yarn per day. In order to vertically integrate the process, the company added knitting machineries with capacity to produce 4000 kgs of fabrics everyday. Dying of fabrics is outsourced. Presently, 100% of the income generated is through domestic clients. In early 2019, the company also ventured into manufacturing of Open Ended yarns (OE) and have added 600 rotors to produce 1200 kgs of OE color yarns per day. In 2019, CYSPL started processing waste from specialized yarns produced in ring spinning machinery using the latest technology and converting it to useable open ended yarn. These OE yarns are sold at 60% of the price of ring-spun yarn

Additionally, it owns three windmills located in Dharapuram (2 Windmills) and Kanyakumari (1 windmill) with combined capacity of 2.25 MW and the power generated is for captive use.

Mr.C.. Subramaniam is the Managing Director.

Key Financial Indicators

Key Parameters	Units	2018	2019
Result Type		Audited	Audited
Revenue from Operations	Rs. Cr	68.90	74.17
EBIDTA	Rs. Cr	7.61	6.49
PAT	Rs. Cr	0.96	0.99
Tangible Net worth	Rs. Cr	21.49	22.48
Total Debt/Tangible Net worth	Times	1.50	1.36
Current Ratio	Times	1.20	1.23

During 5MFY20, the company reported total operating income of ~Rs.42 Crores

Key Covenants of the facility rated: The terms of sanction include standard covenants normally stipulated for such facilities.

Status of non-cooperation with previous CRA - NA

Rating History for the last three years

Facility	Current Rating (Oct 2019)			Rating History		
	Type	Amount (Rs. Crs)	Rating	Jul 04 2018	Sep 25 2017	Mar 16 2017
Fund Based						
Open Cash Credit	Long Term	20.50	BWR BB+/Stable	BWR BB+/Stable	BWR BB+/Stable	BWR BB+/Stable
Term Loan		5.90				
Non Fund Based						
Letter of Credit	Short Term	6.00	BWR A4+	BWR A4+	BWR A4+	BWR A4+
Bank Guarantee		0.13				
Total		32.53	Rupees Thirty Two Crores And Fifty Three Lakhs Only			

Two Way Interchangeability of Rs.2.00Crores between LC and OCC

Complexity Levels of the Instruments:

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)
- [Short Term Debt](#)

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Chenniappa Yarn Spinners Pvt Limited
Annexure I
Details of Bank Facilities rated

Sl No.	Name of the bank	Facility	Long Term (Rs Crs)	Short Term (Rs Crs)	Total (Rs Crs)
1	Karur Vysya Bank, Coimbatore	Open Cash Credit	20.50	-	20.50
		Term Loan	5.90	-	5.90
		Letter of Credit	-	6.00	6.00
		Bank Guarantee	-	0.13	0.13
Total : Rupees Thirty Two Crores And Fifty Three Lakhs Only					32.53

Two Way Interchangeability of Rs.2.00Crores between LC and OCC



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