



Rating Rationale

Chenniyappa Yarn Spinners Pvt. Ltd

4 Jul 2018

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹ 37.25 Crores of Chenniyappa Yarn Spinners Pvt. Ltd (CYSPL or the 'Company').

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (Sep, 2017)	Present
Fund based	29.29	31.12	Long Term	BWR BB+ [Pronounced as BWR Double B Plus] (Outlook:Stable)	Reaffirmation at BWR BB+ [Pronounced as BWR Double B Plus] (Outlook:Stable)
Non Fund Based	4.50	6.13	Short Term	BWR A4+ [Pronounced as BWR Single A Four Plus]	Reaffirmation at BWR A4+ [Pronounced as BWR Single A Four Plus]
Total	33.79	37.25	INR Thirty Seven Crores Twenty Five Lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
Complete details of Bank facilities is provided in Annexure-I

Ratings: Reaffirmed

Rationale/Description of Key Rating Drivers/Rating sensitivities:

The rating continues to derive strength from promoters' experience for more than two decades in the same line of business, regular orders from existing clients and diversified customer base (Top five customers contributes 12% of total revenue in FY18), moderate cash flow from operations to meet debt obligations and comfortable financial leverage. However, the rating is constrained by relatively small scale of operations, declining trend in profitability margin due to intense competition and less financial flexibility. Going forward, the Company's ability to sustain & maintain profitability and increase scale of operation will be the key rating sensitivities.



Description of Key Rating Drivers

Credit Strengths:

- **Long track record of promoters and The Company :** The promoters have extensive experience in the business for more than two decades. It has seen complete business cycles which will help the Company to overcome any obstacles.
- **Work order and revenue visibility :** The Company has repeated orders from existing clients who are all having relationship since inception and at any point in time the Company will have orders for more than a month and well diversified since top five customers contributes 12% of revenue in FY18.
- **Moderate cash flow from operations :** The Company has moderate cash flow from operations to meet debt obligations and comfortable total debt to net worth; for better profit margin the Company has taken strategic steps to increase capacity by way of adding new product line which has high demand in the market which is expected to improve profitability margin in next few years.

Credit Risks:

- **Scale of operations :** Relatively small scale of operation which is limiting their diversification and profitability margin.
- **Profitability Margin :** Due to intense competition, the Company's profitability has declined and partially offset by way of expansion in new product line (Melange yarn).
- **Elongated working capital cycle :** Due to nature of business, the Company needs to maintain inventory to meet customer requirement which is limiting its financial flexibility as reflected in working capital utilization which is more than 90%. However, the promoters has ability to infuse funds as when required.

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Rating Outlook: *Stable*

BWR believes the **Chenniyappa Yarn Spinners Pvt. Ltd** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

About the Company

Chenniyappa Yarn Spinners Private Limited (CYSPL) was established in February 2005 by Mr C Subramanian with his wife Mrs S Komathi and his mother Ms C Valliammal. The COD was in the year 2007. 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.



Company Financial Performance

The Company has recorded operating income of ₹ 75.12 Crs in FY17 against ₹ 73.96 Crores in FY16 registering a 1.57 % increase over the previous year and PAT of ₹ 0.52 Crs against ₹ 2.13 Crs in FY17.

Rating History for the last three years

Sl No	Instrument/ Facility	Current Rating (2018)			Rating History		
		Type (Long Term/ Short Term)	Amount (₹ Crs)	Rating	25-9-2017	2016	2015
1	Fund Based	Long Term	31.12	BWR BB+ (Stable)	BWR BB+ (Stable)	-	-
2	Non Fund Based	Short Term	6.13	BWR A4+	BWR A4+	-	-
		Total	37.25				

Chenniyappa Yarn Spinners Pvt Ltd Key Financial Indicators

Key Parameters	Units	FY16	FY17
Operating Revenue	₹ Crs	73.96	75.12
EBITDA	₹ Crs	10.40	7.13
PAT	₹ Crs	2.13	0.52
Tangible Net worth	₹ Crs	20.01	20.53
Total Debt/Tangible Net worth	Times	1.41	1.57
Current Ratio	Times	1.32	1.15

Hyperlink/Reference to applicable Criteria

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

For any other criteria obtain hyperlinks from website

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Chenniyappa Yarn Spinners Pvt Ltd

Bank wise break up

Annexure I

Type of Facility (₹ in Cr)		Bank of India O/s as of 28-Jun-2018	KVB O/s as of 28-Jun-2018)
Fund Based	Cash Credit*	0.00	20.50
	Term Loan 1	1.86	0.16
	Term Loan 2	0.00	2.38
	Term Loan 3	0.00	1.22
	Term Loan 4	0.00	5.00**
Long Term Total		1.86	29.26
Non Fund Based	Letter of Credit	0.00	6.00^
	Bank Guarantee	0.00	0.13
Short Term Total		0.00	6.13
Total (Short & Long)		1.86	35.39

*It is sanctioned limit

**Yet to avail full loan from the bank

^ ₹ 2 Crs interchangeability to Cash Credit



For print and digital media

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 11,99,663 Cr. In addition, BWR has rated over 6819 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹48,803 Cr have been rated.

DISCLAIMER

Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented “as is” without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.