

Press Release

The Cotton Corporation Of India Limited

April 02, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs.25000.00 Cr.
Short Term Rating	ACUITE A1+

* Refer Annexure for details

Rating Rationale

Acuité has assigned its short term rating of '**ACUITE A1+**' (**read as ACUITE A one plus**) to the Rs.25000.00 crore bank facilities of The Cotton Corporation Of India Limited (CCI).

The Cotton Corporation of India Limited (CCI) is a wholly owned Government of India Undertaking, under administration of Ministry of Textiles, Government of India. It was established in 1970 and is engaged in trade, procurement and export of cotton. CCI operates in all the 10 major cotton growing states with about 350 procurement centers under 15 procurement branches. In addition, it has two sales branches and one warehousing complex at Kalamboli, Navi Mumbai.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of the CCI.

Key Rating Drivers

Strengths

- Nodal agency to undertake price support operations for cotton**

CCI is a cotton trading organization under the administrative control of Ministry of Textiles, Government of India. The major role of the CCI is to undertake Minimum Support Price (MSP) operations on behalf of Government of India; as and when the prices of Fair Average Quality (FAQ) grade seed cotton fall below the MSP level without any quantitative limit, CCI procures entire quantity of FAQ grade cotton offered by the cotton farmers in various Agricultural Produce Market Committee (APMC) yards at MSP rates. CCI is procuring about 5 percent to 35 percent of the total production in the country which entirely depends on the environmental conditions and market conditions (international pricing of seed cotton) every year. CCI is having a well-established network across India to conduct MSP and commercial operation and ensuring remunerative prices to the cotton farmers. The procurement operations are carried out through 350 procurement centers under 15 procurement branches. Besides undertaking MSP operations, CCI also undertakes commercial operations by leveraging on its existing MSP infrastructure and to recover part of overhead expenses; the commercial operations are in addition to the main role of price support and often a tool to ensure optimal utilization of its resources and also support its regular customers. CCI offers its cotton stock through e-auction without any hoarding and speculation so that textile mills including Micro Small & Medium Enterprise (MSME) Units are assured of a steady and continued supply of cotton. Its regular customers include mills like National Textile Corporation Limited (NTC), NSL Textiles Limited (NSL) and Gill and Company Private Limited (GCPL), also international traders like Louis Dreyfus Company (LDC) and Nahar Group of Companies.

CCI also utilizes its network and offers services like purchases, selection and transportation of bales to the spinning industry and works as a facilitating agency to the spinning mills on commission basis generating additional income by utilizing the available manpower without deployment of additional working capital.

CCI's credit profile is supported by 100 percent ownership of Government of India and Government's undertaking to reimburse the losses arising out of the MSP operations. The Government of India has also issued the Letter of Comfort in favor of the lenders, which indicates Government's support to CCI. The strong parentage in the form of the sovereign ownership and written pronouncements in the form of Letter of Comfort have enabled CCI to raise funds from the domestic banks at highly competitive rates.

Acuité believes that CCI will continue play a pivotal role in government's support to the cotton farmers and will benefit from the ownership of Government of India.

Weaknesses

- **Susceptibility of operating volumes to the demand supply dynamics of Cotton**

The cotton production is dependent on the area under cultivation (acreage). Acreage under cotton in India was 124.44 lakh hectares in FY18 as against 108.26 lakh hectares in FY17. While the yield had decreased by 7% to 505 kg/ha as against 542 kg/ha of in FY17, the decrease was attributed on account of pink boll worm infestation in Central & Southern regions of India. However, the cotton production increased to 370 lakh bales as against 345 lakh bales of FY17 on account of increase in acreage under cotton. Also, the carryover stock from previous fiscals of 43.76 lakh bales and imports of 15 lakh bales, the total availability in cotton season 2017-18 improved to approximately 428.76 lakh bales as against 412.38 lakh bales in cotton season 2016-17. The total cotton consumption in India is 315.50 lakh bales with exports of 70 lakh bales resulting in the total demand of 385.50 lakh bales in FY18 as against 368.62 lakh bales in FY17.

Cotton prices in the global markets are largely influenced by the demand-supply situation in major producing and consuming countries like China, US etc. Prior to December 2017 cotton prices in India were under pressure due to significant increase in area under cotton cultivation and expected increase in production in comparison to previous year. However, from December 2017, the cotton prices started increasing due to probable low availability of good quality cotton and also the US-China trade war.

Since Cotton exports from the country come under Open General License (OGL), in the event of prices going above MSP, farmers will prefer to sell in the open market limiting the role for agencies like CCI. The volumes have exhibited strong volatility; MSP volumes were ~8.44 lakh bales in FY2016 due to shortfall of rains in Southern and Central region, due to this there was a huge unsold stock leading to lowering of cotton prices to MSP levels. However, the volume had significantly declined to 0.02 lakh bales in FY17. The volumes of CCI are highly susceptible to the production of cotton and the fluctuation of cotton prices in India. Further, the cotton prices are also susceptible to demand arising from the export market such as Bangladesh and China.

Seed cotton is exposed to agro climatic risks, and the production is highly dependent upon the monsoon and the climatic conditions. Higher temperature in already hot areas may hinder cotton development and fruit formation resulting in reduced yields.

Acuité believes that there are revenue volatility risks for CCI particularly in a scenario of lower production and higher market prices of cotton. However, any losses incurred by CCI arising out of the MSP operations are reimbursed by GoI.

Liquidity position

CCI has large working capital limits from banks, the utilization whereof depends on the cotton procurement. The peak utilization during the period Sept 2018 – Feb 2019 is ~25% of the total sanctioned limits. Further, the ownership and the company's strategic importance to the government strongly enhance its ability to raise debt at a competitive rate from domestic lenders, thereby mitigating any liquidity risks.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	1,393.28	1,856.00	17,075.99
EBITDA	Rs. Cr.	209.27	267.98	876.33
PAT	Rs. Cr.	9.33	(4.55)	11.69
EBITDA Margin	(%)	15.02	14.44	5.13
PAT Margin	(%)	0.67	(0.25)	0.07
ROCE	(%)	7.17	7.06	38.72
Total Debt/Tangible Net Worth	Times	15.53	9.94	14.81
PBDIT/Interest	Times	1.10	1.02	1.03
Total Debt/PBDIT	Times	15.94	10.36	4.88

Gross Current Assets (Days)	Days	1,284	629	106
-----------------------------	------	-------	-----	-----

Status of non-cooperation with previous CRA (if applicable)

CARE, vide its press release dated February 19, 2019 had denoted the rating of The Cotton Corporation of India Limited as 'CARE A1+ /CARE A1+ (SO); ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Working capital	Not Applicable	Not Applicable	Not Applicable	6425.00	ACUITE A1+
Working capital	Not Applicable	Not Applicable	Not Applicable	4200.00	ACUITE A1+
Working capital	Not Applicable	Not Applicable	Not Applicable	2450.00	ACUITE A1+
Working capital	Not Applicable	Not Applicable	Not Applicable	1000.00	ACUITE A1+
Working capital	Not Applicable	Not Applicable	Not Applicable	3400.00	ACUITE A1+
Working capital	Not Applicable	Not Applicable	Not Applicable	1020.00	ACUITE A1+
Working capital	Not Applicable	Not Applicable	Not Applicable	1500.00	ACUITE A1+
Working capital	Not Applicable	Not Applicable	Not Applicable	850.00	ACUITE A1+
Working capital	Not Applicable	Not Applicable	Not Applicable	825.00	ACUITE A1+
Working capital	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE A1+
Working capital	Not Applicable	Not Applicable	Not Applicable	600.00	ACUITE A1+
Working capital	Not Applicable	Not Applicable	Not Applicable	450.00	ACUITE A1+
Working capital	Not Applicable	Not Applicable	Not Applicable	450.00	ACUITE A1+
Working capital	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE A1+
Proposed Working capital	Not Applicable	Not Applicable	Not Applicable	1430.00	ACUITE A1+

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Sanket Kotkar Analyst - Rating Operations Tel: 022-49294073 sanket.kotkar@acuiteratings.in	

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.