

Press Release

The Cotton Corporation of India Limited

December 12, 2019

Rating Reaffirmed & Assigned



| | |
|-------------------------------------|--|
| Total Bank Facilities Rated* | Rs.25000.00 Cr. |
| Long Term Rating# | ACUITE AAA / Outlook: Stable (Assigned) |
| Short Term Rating# | ACUITE A1+ (Reaffirmed) |

* Refer Annexure for details

Both the ratings are interchangeable within the overall limit of Rs.25000.00 Cr.

Rating Rationale

Acuite has reaffirmed the short term rating of '**ACUITE A1+**' (read as **ACUITE A one plus**) and assigned the long-term rating of '**ACUITE AAA**' (read as **ACUITE triple A**) on the Rs.25000.00 Cr. bank facilities of The Cotton Corporation of India Limited (CCI). The outlook is '**Stable**'.

The rating is driven by the full ownership of Government of India and a letter of comfort provided to the lenders in addition to an undertaking by the former to reimburse the losses arising from cotton purchases.

The Cotton Corporation of India Limited (CCI) was established on 31 July 1970 under the administrative control of Ministry of Textiles, Government of India as a Public Sector Undertaking. The major role of CCI is to undertake price support operations, whenever the market prices of cotton fall below the minimum support prices (MSP) announced by Govt. of India, without any quantitative limit. Besides MSP operations, CCI undertakes commercial purchase operations to fulfil the raw material requirement of the domestic textile industry particularly in the lean season.

The corporation is having pan India presence through its headquarters at CBD Belapur, Navi Mumbai (Maharashtra), 19 branches and around 350 cotton procurement centres in all the major cotton growing States.

Analytical Approach

Acuite has considered the standalone credit profile of CCI and has also duly factored in the strong support provided by Government of India to arrive at the rating.

Key Rating Drivers

Strengths

- **Nodal agency to undertake price support operations for cotton with strong operational & financial support from Govt**

CCI is a cotton trading organization under the administrative control of Ministry of Textiles, Government of India. The major role of CCI is to undertake Minimum Support Price (MSP) operations on behalf of the 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 FAQ grade cotton offered by the cotton farmers in various Agricultural Produce Market Committee (APMC) yards at MSP rates. CCI procures about 5 percent to 35 percent of the total production in the country, which entirely depends on the domestic crop outlook and the global prices prevailing in that year.

CCI is having a well-established network in the cotton belt of India to conduct MSP and commercial operations 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 the 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 a transparent mechanism of e-auction so that textile mills including Micro Small & Medium Enterprise (MSME) units are assured of a steady and continued supply of cotton.

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, thereby generating additional income by utilizing the available manpower without deployment of additional working capital.

CCI's credit profile is strengthened by a strong expectation of support from the Government of India. CCI is fully owned (100%) by the Government of India (GoI) and the latter has also provided an undertaking to reimburse the losses arising out of the MSP operations. Additionally, GoI has also issued a Letter of Comfort in favour of CCI's lenders, which shows Government's commitment to support the operations of CCI. CCI's role as an implementation agency for MSP based cotton procurement is critical for the government since it strives to protect the interests of the cotton farmers; further, it also facilitates the availability of cotton to the spinning mills at fair prices. The strong parentage in the form of the sovereign ownership and the pronouncements in the form of Letter of Comfort as well as the loss reimbursement undertaking have enabled CCI to raise funds at competitive pricing from the financial institutions.

Acuite 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 126.07 lakh hectares in FY2019 (Provisional) as against 125.86 lakh hectares in FY2018; however, the yield decreased to 454 kg/ha in FY2019 (Provisional) as against 500 kg/ha of in FY2018. This has resulted in reduction in cotton production to 337 lakh bales in FY2019 (Provisional) as against 370 lakh bales for FY2018. Despite the carryover stock from previous fiscals of 43 lakh bales and imports of 22 lakh bales, the total availability in cotton season 2018-19 (Provisional) declined to approximately 402 lakh bales as against 430 lakh bales in cotton season 2017-18. The total cotton consumption in India was 312 lakh bales with exports of 50 lakh bales resulting in the total demand of 362 lakh bales in FY2019 as against 387 lakh bales in FY2018.

Cotton prices in the global markets are largely influenced by the demand-supply situation in major producing and consuming countries like China, US among others. 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 the previous year. However, from December 2017, the cotton prices had started to increase due to 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 of CCI are therefore highly susceptible to the production of cotton and the volatility of cotton prices in India. Further, the cotton prices are also susceptible to demand arising from the export market such as Bangladesh, Pakistan, China among others.

Seed cotton is exposed to agro climatic risks, and the production is also 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.

Acuite believes CCI will continue be exposed to volatility in its revenues and profitability as it undertakes the MSP operations whenever the market prices of cotton fall below the MSP. However, this risk is mitigated as the losses incurred by CCI arising out of the MSP operations are reimbursed by GoI.

Liquidity position: Superior

CCI has large working capital limits from banks, the utilization whereof depends on the cotton procurement in that season. The peak utilization during the period FY2019 is only 19% of the total sanctioned limits. Further, the ownership and the company's strategic importance to the government strongly supports its ability to raise debt at a competitive rate from its lenders, thereby mitigating any liquidity risks.

Rating Sensitivities

- Any reduction of support from GoI

Material Covenants

None

Outlook: Stable

Acuite believes that CCI will maintain a 'Stable' outlook over the medium term on account of its strategic importance to the government for undertaking the MSP operations and the demonstrated support from the latter through letter of comfort and undertakings.

About the Rated Entity - Key Financials

| | Unit | FY19 (Actual) | FY18 (Actual) |
|-------------------------------|---------|---------------|---------------|
| Operating Income | Rs. Cr. | 2,835.01 | 1,174.60 |
| PAT | Rs. Cr. | 50.99 | 4.17 |
| PAT Margin | (%) | 1.80 | 0.36 |
| Total Debt/Tangible Net Worth | Times | 13.42 | 14.60 |
| PBDIT/Interest | Times | 1.29 | 1.08 |

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Trading Entities - <http://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)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr) | Ratings/Outlook |
|-----------|---------------------------------|------------|-----------------|-----------------------|
| 02-Apr-19 | Working capital | Short term | 6425.00 | ACUITE A1+ (Assigned) |
| | Working capital | Short term | 4200.00 | ACUITE A1+ (Assigned) |
| | Working capital | Short term | 2450.00 | ACUITE A1+ (Assigned) |
| | Working capital | Short term | 1000.00 | ACUITE A1+ (Assigned) |
| | Working capital | Short term | 3400.00 | ACUITE A1+ (Assigned) |
| | Working capital | Short term | 1020.00 | ACUITE A1+ (Assigned) |
| | Working capital | Short term | 1500.00 | ACUITE A1+ (Assigned) |
| | Working capital | Short term | 850.00 | ACUITE A1+ (Assigned) |
| | Working capital | Short term | 825.00 | ACUITE A1+ (Assigned) |
| | Working capital | Short term | 200.00 | ACUITE A1+ (Assigned) |
| | Working capital | Short term | 600.00 | ACUITE A1+ (Assigned) |
| | Working capital | Short term | 450.00 | ACUITE A1+ (Assigned) |
| | Working capital | Short term | 450.00 | ACUITE A1+ (Assigned) |
| | Working capital | Short term | 200.00 | ACUITE A1+ (Assigned) |

| | | | | |
|--|--------------------------|------------|---------|-----------------------|
| | Proposed Working capital | Short term | 1430.00 | ACUITE A1+ (Assigned) |
|--|--------------------------|------------|---------|-----------------------|

***Annexure – Details of instruments rated**

| Name of the Facilities # | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Crore) | Ratings/Outlook |
|--------------------------|------------------|----------------|----------------|-------------------------------|--|
| Working capital | Not Applicable | Not Applicable | Not Applicable | 6425.00 | ACUITE AAA/ Stable/ ACUITE A1+ (Assigned & Reaffirmed) |
| Working capital | Not Applicable | Not Applicable | Not Applicable | 5800.00 | ACUITE AAA/ Stable/ ACUITE A1+ (Assigned & Reaffirmed) |
| Working capital | Not Applicable | Not Applicable | Not Applicable | 2450.00 | ACUITE AAA/ Stable/ ACUITE A1+ (Assigned & Reaffirmed) |
| Working capital | Not Applicable | Not Applicable | Not Applicable | 3400.00 | ACUITE AAA/ Stable/ ACUITE A1+ (Assigned & Reaffirmed) |
| Working capital | Not Applicable | Not Applicable | Not Applicable | 1020.00 | ACUITE AAA/ Stable/ ACUITE A1+ (Assigned & Reaffirmed) |
| Working capital | Not Applicable | Not Applicable | Not Applicable | 1500.00 | ACUITE AAA/ Stable/ ACUITE A1+ (Assigned & Reaffirmed) |
| Working capital | Not Applicable | Not Applicable | Not Applicable | 850.00 | ACUITE AAA/ Stable/ ACUITE A1+ (Assigned & Reaffirmed) |
| Working capital | Not Applicable | Not Applicable | Not Applicable | 825.00 | ACUITE AAA/ Stable/ ACUITE A1+ (Assigned & Reaffirmed) |
| Working capital | Not Applicable | Not Applicable | Not Applicable | 200.00 | ACUITE AAA/ Stable/ ACUITE A1+ (Assigned & Reaffirmed) |
| Working capital | Not Applicable | Not Applicable | Not Applicable | 450.00 | ACUITE AAA/ Stable/ ACUITE A1+ (Assigned & Reaffirmed) |
| Working capital | Not Applicable | Not Applicable | Not Applicable | 450.00 | ACUITE AAA/ Stable/ ACUITE A1+ (Assigned & Reaffirmed) |
| Working capital | Not Applicable | Not Applicable | Not Applicable | 200.00 | ACUITE AAA/ Stable/ ACUITE A1+ (Assigned & Reaffirmed) |
| Proposed Working capital | Not Applicable | Not Applicable | Not Applicable | 1430.00 | ACUITE AAA/ Stable/ ACUITE A1+ (Assigned & Reaffirmed) |

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Contacts

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About Acuité Ratings & Research:

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