

Press Release
The Cotton Corporation of India Limited

June 05, 2020



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.35,000.00 Cr. (Enhanced from Rs.25,000.00 Cr.)
Long Term Rating#	ACUITE AAA / Outlook: Stable
Short Term Rating#	ACUITE A1+

* Refer Annexure for details

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

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE AAA**' (**read as ACUITE triple A**) and the short term rating of '**ACUITE A1+**' (**read as ACUITE A one plus**) on the Rs.35000.00 Cr. bank facilities of The Cotton Corporation of India Limited (CCI). The outlook is '**Stable**'.

The rating is driven by CCI's 100% shareholding by the Government of India. Further, GoI has provided a letter of comfort to the lenders of CCI and also another undertaking to reimburse the losses incurred by the company due to cotton purchases from the farmers.

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

Acuité has considered the standalone credit profile of CCI and has duly factored in the strong support provided by Government of India (GoI) to arrive at the rating.

Key Rating Drivers

Strengths

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

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 to 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 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.

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 126.07 lakh hectares in FY2019 as against 125.86 lakh hectares in FY2018; however, the yield decreased to 454 kg/ha in FY2019 as against 500 kg/ha of in FY2018. This has resulted in reduction in cotton production to 337 lakh bales in FY2019 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 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.

In cotton season 2019-20, CCI procured around 92 lakh bales until 15 May 2020 and is expected to procure another 10-12 lakh bales. However, on account of Covid-19 pandemic, the corporation was not able sell the cotton inventory as the spinning mills were not operational. This has resulted in increase in the total borrowings, which stood around Rs.21170 Cr. as on 31 March 2020 (Provisional). The corporation expects to sell around 60-70 lakh bales till September 2020, which will help in reduction in the total borrowings of the corporation. Acuité believes that ability of the corporation to lower its borrowing levels or to enhance its working capital limits will be critical in order to carry out MSP operations for next cotton season.

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.

Acuité 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 working capital borrowings increased to Rs.21,170 Cr. as on 31 March 2020 (Provisional) on account of increase in the inventory levels, as the cotton sales to the spinning mills has been impacted because of Covid-19 pandemic. However, the ownership and the company's strategic importance to the government strongly supports its ability to raise additional 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

Acuité 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-52.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
12-Dec-19	Working capital	Long Term/ Short term	6425.00	ACUITE AAA/ Stable/ ACUITE A1+ (Assigned & Reaffirmed)
	Working capital	Long Term/ Short term	5800.00	ACUITE AAA/ Stable/ ACUITE A1+ (Assigned & Reaffirmed)
	Working capital	Long Term/ Short term	2450.00	ACUITE AAA/ Stable/ ACUITE A1+ (Assigned & Reaffirmed)
	Working capital	Long Term/ Short term	3400.00	ACUITE AAA/ Stable/ ACUITE A1+ (Assigned & Reaffirmed)
	Working capital	Long Term/ Short term	1020.00	ACUITE AAA/ Stable/ ACUITE A1+ (Assigned & Reaffirmed)
	Working capital	Long Term/ Short term	1500.00	ACUITE AAA/ Stable/ ACUITE A1+ (Assigned & Reaffirmed)
	Working capital	Long Term/ Short term	850.00	ACUITE AAA/ Stable/ ACUITE A1+ (Assigned & Reaffirmed)

02-Apr-19	Working capital	Long Term/ Short term	825.00	ACUITE AAA/ Stable/ ACUITE A1+ (Assigned & Reaffirmed)
	Working capital	Long Term/ Short term	200.00	ACUITE AAA/ Stable/ ACUITE A1+ (Assigned & Reaffirmed)
	Working capital	Long Term/ Short term	450.00	ACUITE AAA/ Stable/ ACUITE A1+ (Assigned & Reaffirmed)
	Working capital	Long Term/ Short term	450.00	ACUITE AAA/ Stable/ ACUITE A1+ (Assigned & Reaffirmed)
	Working capital	Long Term/ Short term	200.00	ACUITE AAA/ Stable/ ACUITE A1+ (Assigned & Reaffirmed)
	Proposed Working capital	Long Term/ Short term	1430.00	ACUITE AAA/ Stable/ ACUITE A1+ (Assigned & Reaffirmed)
	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+ (Reaffirmed)
Working capital	Not Applicable	Not Applicable	Not Applicable	5800.00	ACUITE AAA/ Stable/ ACUITE A1+ (Reaffirmed)
Working capital	Not Applicable	Not Applicable	Not Applicable	2450.00	ACUITE AAA/ Stable/ ACUITE A1+ (Reaffirmed)
Working capital	Not Applicable	Not Applicable	Not Applicable	3400.00	ACUITE AAA/ Stable/ ACUITE A1+ (Reaffirmed)
Working capital	Not Applicable	Not Applicable	Not Applicable	1020.00	ACUITE AAA/ Stable/ ACUITE A1+ (Reaffirmed)
Working capital	Not Applicable	Not Applicable	Not Applicable	1500.00	ACUITE AAA/ Stable/ ACUITE A1+ (Reaffirmed)
Working capital	Not Applicable	Not Applicable	Not Applicable	850.00	ACUITE AAA/ Stable/ ACUITE A1+

					(Reaffirmed)
Working capital	Not Applicable	Not Applicable	Not Applicable	825.00	ACUITE AAA/ Stable/ ACUITE A1+ (Reaffirmed)
Working capital	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE AAA/ Stable/ ACUITE A1+ (Reaffirmed)
Working capital	Not Applicable	Not Applicable	Not Applicable	450.00	ACUITE AAA/ Stable/ ACUITE A1+ (Reaffirmed)
Working capital	Not Applicable	Not Applicable	Not Applicable	450.00	ACUITE AAA/ Stable/ ACUITE A1+ (Reaffirmed)
Working capital	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE AAA/ Stable/ ACUITE A1+ (Reaffirmed)
Proposed Working capital	Not Applicable	Not Applicable	Not Applicable	11430.00	ACUITE AAA/ Stable/ ACUITE A1+ (Reaffirmed)

Both the ratings are interchangeable within the overall limit of Rs.35000.00 Cr.

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President- Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Avadhoot Mane Senior Analyst - Rating Operations Tel: 022-49294051 avadhoot.mane@acuite.in	

About Acuité Ratings & Research:

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