

Press Release

The Cotton Corporation of India Limited

July 16, 2021



Rating Reaffirmed

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

* Refer Annexure for details

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.35,000.00 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 and the strategic importance of the entity in procurement of cotton in India. Further, Government of India has provided a letter of comfort and undertaking to CCI for reimbursement of losses in minimum support price (MSP) operations for the cotton procured by the corporation.

About the Company

The Cotton Corporation of India Limited (CCI) was established on July 31, 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 more than 450 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.

List of key rating drivers and their detailed description:

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 more than 450 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 (GOI). 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, 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 decreased by 3.11% to 129.57 lakh hectares in FY2021 as against 133.73 lakh hectares in FY2020. The yield increased by 4.96% to 487 kg/ha in FY2021 as against 464 kg/ha in FY2020. This has resulted in increase in cotton production to 371 lakh bales in FY2021 as against 365 lakh bales for FY2020. With the carryover stock from previous fiscals of 120.95 lakh bales and imports of 11 lakh bales, the total availability in cotton season FY2020-21 increased to approximately 491.95 lakh bales as against 421.52 lakh bales in cotton season FY2019-20. The total cotton consumption in India was 330 lakh bales with exports of 75 lakh bales resulting in the total demand of 405 lakh bales in FY2021 as against 316 lakh bales in FY2020.

In cotton season FY2020-21, CCI procured around 101.53 lakh bales until March 31, 2021. However, on account of Covid-19 pandemic, the corporation was not able to sell the cotton inventory as the spinning mills were not operational. This has resulted in increase in the total borrowings to Rs. 32,114.97 Cr. during FY2020-21 (Provisional) as against Rs. 21,170 Cr. during FY2019-20. The corporation had opening stock of about 104 lakh bales on April 01, 2021 of which it has already sold 82.90 lakh bales as on July 05, 2021 and is now left with only 21.10 lakh bales in hand. The corporation expects to procure about 50 lakh bales during the upcoming season. The reduction in inventory levels helped corporation to reduce the debt levels to Rs. 16,900 Cr. as on July 05, 2021. The corporation expects that during the upcoming season it would require additional debt of Rs. 12,000 Cr. 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 coming 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. During the current season, MSP for medium staple has increased by 3.83% to Rs. 5,726 per quintal from Rs. 5,515 per quintal and MSP for long staple has increased by 3.43% to Rs. 6,025 per quintal from Rs. 5,825 per quintal.

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, and 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.

Rating Sensitivities

- Any unexpected reduction of support from GoI.
- Any significant deterioration in the working capital intensity of the corporation

Material Covenants

None

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.32,114.97 Cr. during FY2020-21 (Provisional) as against Rs.21,170 Cr. during FY2019-20 on account of further increase in the inventory levels because of Covid-19 pandemic. However, on the back of increase in demand both domestically and globally, the corporation has been able to reduce its inventory level as well as debt level to 21 lakh bales and Rs.16,900 Cr. respectively as on July 05, 2021. Acuité believes that the complete 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.

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	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	6460.12	2835.01
PAT	Rs. Cr.	38.07	50.99
PAT Margin	(%)	0.59	1.80
Total Debt/Tangible Net Worth	Times	57.62	13.42
PBDIT/Interest	Times	1.13	1.29

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

Not Applicable

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
05-Jun-2020	Working Capital	Long Term/Short Term	6425.00	AAA/ Stable / ACUITE A1+ (Reaffirmed)
	Working Capital	Long Term/Short Term	5800.00	AAA/ Stable / ACUITE A1+ (Reaffirmed)
	Working Capital	Long Term/Short Term	2450.00	AAA/ Stable / ACUITE A1+ (Reaffirmed)
	Working Capital	Long Term/Short Term	200.00	AAA/ Stable / ACUITE A1+ (Reaffirmed)
	Working Capital	Long Term/Short Term	200.00	AAA/ Stable / ACUITE A1+ (Reaffirmed)
	Working Capital	Long Term/Short Term	3400.00	AAA/ Stable / ACUITE A1+ (Reaffirmed)
	Working Capital	Long Term/Short Term	1020.00	AAA/ Stable / ACUITE A1+ (Reaffirmed)
	Working Capital	Long Term/Short Term	850.00	AAA/ Stable / ACUITE A1+ (Reaffirmed)
	Working Capital	Long Term/Short Term	450.00	AAA/ Stable / ACUITE A1+ (Reaffirmed)
	Working Capital	Long Term/Short Term	1500.00	AAA/ Stable / ACUITE A1+ (Reaffirmed)
	Working Capital	Long Term/Short Term	825.00	AAA/ Stable / ACUITE A1+ (Reaffirmed)
	Working Capital	Long Term/Short Term	450.00	AAA/ Stable / ACUITE A1+ (Reaffirmed)
	Working Capital	Long Term/Short Term	11430.00	AAA/ Stable / ACUITE A1+ (Reaffirmed)
12-Dec-2019	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)
	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+

02-Apr-2019	Working capital	Long Term/ Short term	450.00	(Assigned & Reaffirmed) 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)
	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	12500.00	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	4700.00	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	1000.00	ACUITE AAA/ Stable/ ACUITE A1+ (Reaffirmed)
Working capital	Not Applicable	Not Applicable	Not Applicable	1050.00	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	3500.00	ACUITE AAA/ Stable/ ACUITE A1+ (Reaffirmed)
Proposed Working capital	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE AAA/ Stable/ ACUITE A1+ (Reaffirmed)

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