

Press Release

THE COTTON CORPORATION OF INDIA LIMITED

August 17, 2023

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Shareholder
Bank Loan Ratings	25000.00	ACUITE AAA Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	25000.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of 'ACUITE AAA' (read as ACUITE triple A) on the Rs.25,000.00 Cr. bank facilities of The Cotton Corporation of India Limited (CCI). The outlook is 'Stable'.

Rationale for reaffirmation

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

Acuite 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 more than

400 procurement centers under 19 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 6.88% to 123.71 lakh hectares in FY2022 as against 132.85 lakh hectares in FY2021. The yield decreased by 5.10% to 428 kg/ha in FY2022 as against 451 kg/ha of in FY2021. This has resulted in decrease in cotton production to 311.17 lakh bales in FY2022 as against 352.48 lakh bales for FY2021. The carryover stock from previous fiscals of 71.84 lakh bales and imports of 21.13 lakh bales, the total availability in cotton season 2021-22 stood to approximately 404.04 lakh bales as against 484.30 lakh bales in cotton season 2020-21. The total cotton consumption in India was 322.41 lakh bales with exports of 43 lakh bales resulting in the total demand of 364.66 lakh bales in FY2022 as against 412.46 lakh bales in FY2021. During 22-23 the corporation expects some reduction in the overall supply at around 393 lakh bales. Further, the reduction in inventory levels y-o-y has helped corporation to reduce the debt levels to Nil Mar 31, 2022. Further, the corporation is anticipating that market prices would remain above the MSP and hence have lowered its working capital limits for the coming cotton season 22-23.

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.

Rating Sensitivities

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

Material covenants

None.

Liquidity Position

Strong

CCI has large working capital limits from banks, the utilization whereof depends on the cotton procurement in that season. The working capital borrowings decreased to nil from last two years ended March 31, 2023 as against Rs. 32114.97 Cr. as on March 31, 2021 on account of limited MSP operations undertaken. The company has unencumbered cash and cash equivalent of Rs. 162 Cr. as on 28th February 2023. Further, 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.

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.

Other Factors affecting Rating

None.

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	23591.30	34646.56
PAT	Rs. Cr.	13.29	26.13
PAT Margin	(%)	0.06	0.08
Total Debt/Tangible Net Worth	Times	0.01	70.78
PBDIT/Interest	Times	1.09	1.03

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 Entitie: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
12 Jul 2023	Working Capital Demand Loan	Long Term	5800.00	ACUITE AAA Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	725.00	ACUITE AAA (Withdrawn)
	Working Capital Demand Loan	Long Term	3400.00	ACUITE AAA Stable (Reaffirmed)
	Proposed Working Capital Demand Loan	Long Term	200.00	ACUITE AAA Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	6425.00	ACUITE AAA Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	1050.00	ACUITE AAA (Withdrawn)
	Working Capital Demand Loan	Long Term	2250.00	ACUITE AAA (Withdrawn)
	Proposed Working Capital Demand Loan	Long Term	3500.00	ACUITE AAA Stable (Assigned)
	Working Capital Demand Loan	Long Term	450.00	ACUITE AAA Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	2775.00	ACUITE AAA Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	2450.00	ACUITE AAA Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	1000.00	ACUITE AAA (Withdrawn)
	Working Capital Demand Loan	Long Term	6075.00	ACUITE AAA (Withdrawn)
	Working Capital Demand Loan	Long Term	2400.00	ACUITE AAA (Withdrawn)
14 Oct 2022	Working Capital Demand Loan	Long Term	5800.00	ACUITE AAA Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	3500.00	ACUITE AAA Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	5800.00	ACUITE AAA Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	1000.00	ACUITE AAA Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	450.00	ACUITE AAA Stable (Reaffirmed)
	Proposed Working Capital Demand Loan	Long Term	200.00	ACUITE AAA Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	1050.00	ACUITE AAA Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	4700.00	ACUITE AAA Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	12500.00	ACUITE AAA Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	4700.00	ACUITE AAA Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	12500.00	ACUITE AAA Stable (Reaffirmed)
	Proposed Working Capital Demand Loan	Long Term	200.00	ACUITE AAA Stable (Reaffirmed)
		Long		ACUITE AAA Stable

16 Jul 2021	Working Capital Demand Loan	Term	5800.00	(Reaffirmed)
	Working Capital Demand Loan	Long Term	5800.00	ACUITE AAA Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	1000.00	ACUITE AAA Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	3500.00	ACUITE AAA Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	1050.00	ACUITE AAA Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	450.00	ACUITE AAA Stable (Reaffirmed)
05 Jun 2020	Proposed Working Capital Demand Loan	Long Term	11430.00	ACUITE AAA Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	5800.00	ACUITE AAA Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	200.00	ACUITE AAA Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	2450.00	ACUITE AAA Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	3400.00	ACUITE AAA Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	450.00	ACUITE AAA Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	1020.00	ACUITE AAA Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	1500.00	ACUITE AAA Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	200.00	ACUITE AAA Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	850.00	ACUITE AAA Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	6425.00	ACUITE AAA Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	825.00	ACUITE AAA Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	450.00	ACUITE AAA Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	450.00	ACUITE AAA Stable (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	Simple	3700.00	ACUITE AAA Stable Reaffirmed
State Bank of India	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	6425.00	ACUITE AAA Stable Reaffirmed
Punjab National Bank	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	2450.00	ACUITE AAA Stable Reaffirmed
Union Bank of India	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	2775.00	ACUITE AAA Stable Reaffirmed
Bank of India	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	3400.00	ACUITE AAA Stable Reaffirmed
Bank of Baroda	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	5800.00	ACUITE AAA Stable Reaffirmed
Indian Bank	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	450.00	ACUITE AAA Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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