

U.B.Cotton Private Limited

October 04, 2022

Rating

Facilities	Amount (₹ crore)	Rating ¹	Rating Action
Long Term / Short Term Bank Facilities	37.00	CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING* (Double B Plus; Outlook: Stable/ A Four Plus ISSUER NOT COOPERATING*)	Rating continues to remain under ISSUER NOT COOPERATING category and Revised from CARE BBB; Stable / CARE A3+; (Triple B; Outlook: Stable / A Three Plus)
Total Bank Facilities	37.00 (₹ Thirty-Seven Crore Only)		

Details of facilities in Annexure-1.

Detailed rationale and key rating drivers

CARE Ratings Ltd. had, vide its press release dated April 04, 2022, placed the rating of U.B. Cotton Private Limited (UBCPL) under the 'issuer non-cooperating' category as UBCPL had failed to provide information for monitoring of the rating and had not paid the surveillance fees for the rating exercise as agreed to in its Rating Agreement. UBCPL continues to be non-cooperative despite repeated requests for submission of information through e-mails, phone calls and a email dated September 19, 2022. In line with the extant SEBI guidelines, CARE Ratings Ltd. has reviewed the rating on the basis of the best available information which however, in CARE Ratings Ltd.'s opinion is not sufficient to arrive at a fair rating.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating.

Detailed description of the key rating drivers

At the time of last rating on April 04, 2022, the following were the rating strengths and weaknesses.

Key Rating Strengths

Experienced Promoter and established track record:

UBCPL is being currently directed by Mr. Udayan B. Thakkar (present Managing Director and third generation entrepreneur) and Mr. Kunal Udayan Thakkar (fourth generation entrepreneur). The promoter family has a track record of more than eight decades in the current line of business. Due to its long presence in the cotton trading segment, UBCPL has established itself as a preferred vendor for cotton exports for domestic textile mills. It has an established network of suppliers of cotton in the prime cotton growing region of the country and owns warehouses in Ahmedabad, Sri Ganga Nagar (Rajasthan), Maharashtra and Tamil Nadu.

Established and diversified base of reputed customers:

UBCPL has been in the cotton trading business for about 2 decades and with long standing promoter experience, the company has been able to associate with major cotton ginneries and in some cases directly with the farmers. Over the years, the company has set up a strong distribution network and a diverse clientele. The company has presence in domestic as well as exports market through various dealers and distributors who have aided the company in garnering repeat orders. UBCPL exports cotton to China, Bangladesh, Hong Kong, Indonesia, Switzerland, etc. It also has a good distribution network to sell locally. The sales of UBCPL have seen minimal bad debts or provisioning of receivables which reflects good quality of its customers. The company has been receiving repeated orders from renowned customers over the years and confirmed orders from its reliable customers account for majority of sales.

Prudent risk management practices:

The company follows conservative business model. UBCPL books transactions on a short term and back to back basis as a part of its conservative trading strategy, the same can be corroborated from the fact that its gross margins have been stable between 2% to 4% over the past 3 years. Further, the company is primarily a cotton trader and is vulnerable to regulatory restrictions on cotton export which is linked to the demand supply scenario in the domestic market. UBCPL was able to maintain profitability even when exports were not viable in FY20 due to higher domestic prices of cotton, thus reflecting the flexibility in its trading strategy in line with fluctuation of cotton prices. 2 CARE Ratings Limited Press Release In order to mitigate the risks associated with foreign currency fluctuations, the company enters into forward contracts for all the export transactions to hedge

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

its foreign currency risks. Though the payment terms differ from client to client, UBCPL has majority of export sales (approximately 85-90%) backed by LCs and remaining on Cash against Documents (CAD).

Moderate capital structure and Debt protection metrics:

UBCPL's capital structure continues to be moderate. TOL/TNW as on March 31, 2021 deteriorated to 3.36 times as against 1.51 times as on March 31, 2020. The overall gearing deteriorated to 1.63x as on March 31, 2021 compared to 1.11x as on March 31, 2020. The interest coverage ratio deteriorated to 1.51x in FY21 compared to 1.72x in FY20. Interest cost increased from Rs. 4.52 crore in FY20 to Rs.8.42 crore during FY21.

Competitive domestic cotton prices and improved demand to aid cotton exports in the near to medium term:

In FY20, Indian cotton prices were not competitive in the international market. However, with the easing of lockdown since July 2020, the trade is gradually returning to pre-Covid levels following the revival of demand from the buyers in international market, UBCPL is expected to regain the export business. The Cotton Corporation of India (CCI) and the Maharashtra State Co-Operative Cotton Growers Marketing Federation (MAHFED) were holding huge inventory of cotton during the previous cotton season and as they liquidated the stocks, the prices of Indian cotton became competitive in the international market. The same can be corroborated from the increase in cotton exports from India.

Key Rating Weaknesses**Product Concentration risk:**

UBCPL earns revenues from sale of a single product i.e. raw cotton and this exposes the company's revenue to volatility in the production, demand as well as prices of cotton. Furthermore, cotton trading is seasonal in nature with the peak season from December to March. The majority of sales occur during this period. Thus, the profit margins of UBCPL are susceptible to the risks related to trading in a single commodity as well as seasonal nature of business.

Significant Improvement in FY21 & 10MFY22:

The company reported 81.9% increase in TOI from Rs.188 crore in FY20 to Rs.342 crore in FY21. However, UBCPL reported deterioration in PBILDT margin from 4.13% in FY20 to 3.33% in FY21. However, due to improved demand post easing of lock down from major cotton consuming neighbours namely China, Bangladesh, Vietnam etc., UBCPL's sales for 9MFY22 improved by 70.94% on a YoY basis to Rs. 653.31. Despite covid related disruption in FY21, PBILDT margin remained largely stable during 10MFY22 at 3.12%.

Moderate operating cycle:

The operating cycle improved from 102 days as on March 31, 2020 to 27 days as on March 31, 2021 mainly due to the drop in collection period from 109 days to 53 days. The collection period was stretched as the payments have been delayed primarily due to COVID-19 and also due to the increased domestic sales wherein the credit period offered is ~90 days (vs ~45 days for export sales).

Inherent risk associated with the cotton trading industry:

Due to low value addition and moderate capital requirements, the cotton trading industry in India is characterized by presence of large number of players. Further the company is vulnerable to regulatory restrictions on cotton exports. The operating margins in commodity trading business remain thin and susceptible to volatility in commodity prices. Given the low trading margins, UBCPL works on back-to-back basis, with major part of the inventory being hedged, and LC backed sales.

Analytical approach - Standalone**Applicable criteria**

[Policy in respect of Non-cooperation by issuer](#)

[CARE's Policy on Default Recognition](#)

[Criteria on assigning Outlook and credit watch to Credit Ratings](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology - Wholesale Trading](#)

[Rating Methodology for Cotton Textile](#)

[CARE Withdrawal policy](#)

About the company

U.B Cotton Private Limited (UBCPL), incorporated in May 2002, is promoted by the Thakkar family who are in to cotton trading since 1930. UBCPL is a member of CAI (Cotton Association of India) and Mr. Udayan B. Thakkar (Managing Director, UBCPL) is serving as a Director on the Board of CAI. Kunal U Thakkar and Ravi U Thakkar, who represent the fourth generation of the Thakkar family in the business, oversee the sales and procurement in foreign markets. Due to its long experience, UBCPL is able to change its trading strategy, in line with market conditions – export from India when Indian cotton prices are lower, and Import to India, when International cotton prices are lower. It exports Indian cotton to China, Bangladesh, Hong Kong, Japan, and Indonesia. It procures cotton bales from US, Brazil, Egypt, Australia etc., and sells to India. It also acts as Commission Agent for foreign exporters and domestic cotton textile mills.

Brief Financials (₹ crore)	March 31, 2020 (A)	March 31, 2021 (A)	10MFY22(P)	FY22	Q1FY23
Total operating income	187.14	382.08	653.31	NA	NA
PBILDT	6.83	12.72	20.41	NA	NA
PAT	2.65	3.40	10.31	NA	NA
Overall gearing (times)	1.11	1.63	NA	NA	NA
Interest coverage (times)	1.51	1.51	3.09	NA	NA

A: Audited; P: Provisional; NA: Not applicable

Status of non-cooperation with previous CRA: Nil

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated facilities: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Complexity level of various facilities rated for this company: Annexure-4

Annexure-1: Details of facilities

Name of the Facilities	ISIN	Date of Issuance (MM-YY)	Coupon Rate (%)	Maturity Date (MM-YY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST		-	-	-	37.00	CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING*

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based/Non-fund-based-LT/ST	LT/ST*	37.00	CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING*	1)CARE BBB; Stable / CARE A3+; ISSUER NOT COOPERATING* (04-Apr-22)	-	1)CARE BBB; Stable / CARE A3+ (02-Mar-21) 2)CARE BBB; Stable / CARE A3+ (06-Apr-20)	1)CARE BBB; Stable / CARE A3+ (04-Apr-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated facilities – Not applicable

Annexure-4: Complexity level of various facilities rated for this company

Sr. No.	Name of Facilities	Complexity Level
1	Fund-based/Non-fund-based-LT/ST	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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