# Agrasen Cotton Industries

**July 29, 2020**

**Ratings**

| Facilities/Instruments | Amount (Rs. crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term Bank Facilities | 8.00 | CARE C; ISSUER NOT COOPERATING* (Single C; ISSUER NOT COOPERATING) | "Issuer not cooperating; Revised from CARE B; Issuer Not Cooperating (Single B; Issuer Not Cooperating) "on the basis of best available information" |
| **Total** | **8.00 (Rs. Eight Crore Only)** | | |

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

CARE had, vide its press release dated July 24, 2019, placed the rating(s) of Agrasen Cotton Industries (ACI) under the 'issuer non-cooperating' category as ACI had failed to provide information for monitoring of the rating for the rating exercise as agreed to in its Rating Agreement. ACI continues to be non-cooperative despite repeated requests for submission of information through e-mails, phone calls and an email dated July 16, 2020. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE'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(s).**

The rating has been revised on account of non-availability of requisite information.

The rating, further, continues to remain constrained on account of its financial risk profile marked by thin profit margins, moderately leveraged capital structure and weak debt coverage indicators, moderate liquidity profile and constitution as a proprietorship concern. The rating, further, continue to remain constrained on account of its operating margins susceptible to cotton price fluctuation and seasonality associated with cotton industry and presence in the highly fragmented industry with limited value addition and prices and supply for cotton being highly regulated by the government.

The rating, however, drives strength from experienced proprietor in the cotton industry and established track record of operations, strategically located within cotton producing belt of Madhya Pradesh and increasing scale of operations

**Detailed description of the key rating drivers**

*At the time of last rating on July 24, 2019 the following were the rating strengths and weaknesses*

**Key Rating Weaknesses**

***Financial risk profile marked by thin profit margins, moderately leveraged capital structure and weak debt coverage indicators***

PBILDT margin remained thin during FY13-FY15. During FY15, the PBILDT margin increased marginally by 4 bps to 1.46% (FY14: 1.42%) primarily due to lower cost of raw material. However, PAT margin decreased to 0.30% in FY15 as against 0.37% in FY14 mainly on account of increase in interest cost.

The capital structure of ACI remained leveraged on March 31, 2015. Overall gearing ratio deteriorated to 2.81 times as on March 31, 2015 as against 1.90 times as on March 31, 2014. Total debt to GCA deteriorated to 24.21 times (16.32 times as on March 31, 2014) due to high debt level as on March 31, 2015. Interest coverage ratio deteriorated to 1.40 times during FY15 (from 1.56 times during FY14) primarily due to higher interest cost.

***Moderate liquidity position***

Current ratio and quick ratio remained at 1.95 times and 1.08 times as on March 31, 2015 (1.52 times and 0.72 times on March 31, 2014). The operating cycle remained at 38 days during FY15 (FY14: 40 days). However, its working capital limits remained fully utilized during season (Oct. to June) and around 70% utilized (average) during non-peak season (July- Sep.). Cash flow from operations stood negative Rs.1.64 crore in FY15 as against positive Rs.0.60 crore in FY14.

***Operating margins susceptible to cotton price fluctuation and seasonality associated with cotton industry***

Operations of cotton business are seasonal in nature, as sowing season is done during March to July and harvesting cycle (peak season) is spread from November to February every year. Prices of raw material i e raw cotton are highly volatile in

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications*

nature and depend upon factors like monsoon condition, area under production, yield for the year, international demand supply scenario, export policy decided by government and inventory carried forward of the last year. Ginners usually have to procure raw materials at significantly higher volume to bargain bulk discount from suppliers. Furthermore, cotton being a seasonal crop, the inventory levels of the entity generally remains high at the end of the financial year. Thus, aggregate effect of both the above factors results in exposure of ginners to price volatility risk.

***Constitution as a proprietorship firm and presence in the highly fragmented industry with limited value addition and prices and supply for cotton being highly regulated by the government***
ACI is engaged in the ginning and pressing of cotton which involves very limited value addition and hence results in thin profitability. Moreover, on account of large number of units operating in the cotton ginning business, the competition within the players remains very high resulting in high fragmentation and further restricts the profitability. Thus, ginning players have very low bargaining power against its customer as well as suppliers. The cotton prices in India are regulated by government through MSP (Minimum Support Price) fixed by government, though due to huge demand-supply mismatch the prices have rarely been below the MSP. Moreover, exports of cotton are also regulated by government through quota systems to suffice domestic demand for cotton. Hence, any adverse change in government policy i.e. higher quota for any particular year, ban on the cotton or cotton yarn export may negatively impact the prices of raw cotton in the domestic market and could result in lower realizations and profit. In addition to this, the firm has restricted avenues of raising external borrowing and inherent risk of withdrawal of the capital owing to the proprietorship constitution of firm.

***Key Rating Strengths***
***Experienced proprietor in cotton industry and established track record of operations***
Mr. Manoj Agrawal (Age: 41 years), Proprietor has done graduation and has long experience of 26 years in cotton industry. He looks after the day to day operations of the firm. Further, ACI has a long operational track record of 17 years into cotton ginning and pressing.

***Strategically located within cotton producing belt of Madhya Pradesh***
The manufacturing facility of ACI is located at Ratlam district of Madhya Pradesh. ACI purchases cotton from Madhya Pradesh which produces around 7% of total national production of cotton. ACI's presence in the cotton producing belt results in benefits derived from lower logistic expenditure (both on transportation and storage), easy availability and procurement of raw materials at effective prices and consistent demand for finished goods resulting in a sustainable and clear revenue visibility.

***Increasing scale of operation***
During FY13-FY15, TOI of ACI has reflected increasing trend marked by its increasing TOI from Rs.40.43 crore in FY13 to Rs.70.84 crore in FY15. During FY15, the TOI of ACI has increased by 29.79% to Rs.70.84 crore as against Rs.54.58 crore in FY14 primarily due to increase in quantity sold of cotton bales.

**Analytical approach:** Standalone

**Applicable Criteria**
Policy in respect of Non-cooperation by issuer
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology for Cotton Textile Manufacturing
Financial ratios – Non-Financial Sector

**Background of the Firm**
Ratlam (Madhya Pradesh) based, ACI was established in 1998 as a proprietorship firm by Mr. Manoj Agrawal. ACI is engaged in cotton ginning and pressing and trading of cotton. ACI operates from its sole manufacturing facility located in Ratlam and has an installed capacity of 12410 MTPA for cotton bales and 25185 MTPA for cotton seed as on March 31, 2015.

| Brief Financials (Rs. crore) | FY14 (A) | FY15 (A) |
|---|---|---|
| Total operating income | 54.48 | 70.84 |
| PBILDT | 0.78 | 1.03 |
| PAT | 0.20 | 0.21 |
| Overall gearing (times) | 1.90 | 2.81 |
| Interest coverage (times) | 1.56 | 1.40 |

A: Audited

**Status of non-cooperation with previous CRA:** None

**Any other information:** None

**Rating History for last three years:** Please refer Annexure-2

**Annexure-1: Details of Instruments/Facilities**

| Name of the Instrument | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---|---|---|---|---|---|
| Fund-based - LT-Cash Credit | - | - | - | 8.00 | CARE C; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE B; ISSUER NOT COOPERATING* on the basis of best available information |

**Annexure-2: Rating History of last three years**

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating history | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 |
| 1. | Fund-based - LT-Cash Credit | LT | 8.00 | CARE C; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE B; ISSUER NOT COOPERATING* on the basis of best available information | - | 1)CARE B; ISSUER NOT COOPERATING* (24-Jul-19) | 1)CARE B; ISSUER NOT COOPERATING* (20-Jun-18) | 1)CARE B+; ISSUER NOT COOPERATING* (05-May-17) |

***Note on complexity levels of the rated instrument:*** *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

## Contact us

**Media Contact**
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

**Analyst Contact**
Group Head Name – Mr Abhishek Jain
Group Head Contact no.- 0141-4020213/14
Group Head Email ID- abhishek.jain@careratings.com

**Business Development Contact**
Name: Mr Nikhil Soni
Contact no. : 0141-4020213/14
Email ID : nikhil.soni@careratings.com

**About CARE Ratings:**
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.