

## Loknayak Jayprakash Narayan Shetkari Sahakari Soot Girni Limited

March 22, 2019

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long term Bank Facilities	50.00	CARE B+; Stable ISSUER NOT COOPERATING [(Single B Plus); Outlook: Stable] ISSUER NOT COOPERATING	ISSUER NOT COOPERATING
<b>Total Facilities</b>	<b>50.00</b> <b>(Rupees Fifty crore only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Loknayak Jayprakash Narayan Shetkari Sahakari Soot Girni Limited (LJNSSGGL) to monitor the rating(s) vide e-mail communications dated March 12, 2019, February 8 2019, December 14th 2018, October 18th 2018 and numerous phone calls. However, despite our repeated requests, the Loknayak Jayprakash Narayan Shetkari Sahakari Soot Girni Limited has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the ratings on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating.

Further LJNSSGGL has not paid the surveillance fees for the rating exercise as agreed to in its Rating Agreement. The rating on LJNSSGGL's bank facilities will now be denoted as **"CARE B+; Stable; ISSUER NOT COOPERATING"**.

**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 assigned to the bank facilities of Loknayak Jayprakash Narayan Shetkari Sahakari Soot Girni Limited (LJNSGL) is constrained on account of modest scale of operations, low profit margins, leveraged capital structure, weak debt coverage indicators and working capital intensive nature of operations due to seasonal nature of business. The rating also factors in the susceptibility of margins to fluctuations in cotton prices and its presence in fragmented industry with susceptibility to government regulations. The ratings, however, draws support from the long operational track record of the society, experienced and qualified management with awards received for operational efficiency of the society and location advantage with respect to proximity to its raw material. The ability of the society to further increase its scale of operations and improve profitability and capital structure with efficient management of working capital requirements remain the key rating sensitivities.

### Detailed description of the key rating drivers

*At the time of last rating on April 05, 2018 following were the rating strengths and rating weaknesses.*

#### Key Rating Strengths

##### **Long operational track record of the society along with experienced and qualified management**

Established in December 1979, LJNSGL has a long track record of almost four decades in the cotton spinning sector. The society has developed an established network and business relations with customers and suppliers over its years. The society is currently managed by Mr Deepak P Patil in the strength of Chairman who has an experience of more than two and a half decades in textile spinning industry and sugar business and Mr. R.D. Patil (Managing Director) who has more than three and a half decades of experience in textile spinning industry with adequate support from other members of the society.

##### **Locational advantage emanating from proximity to raw material**

The manufacturing facility of the society is located at Maharashtra, which is the second highest producer of cotton. Hence, raw material is available in adequate quantity. Furthermore, the presence of LJNSGL in cotton producing region also fetches a location advantage of lower logistics expenditure.

#### Key Rating Weaknesses

##### **Modest scale of operation with low profit margins**

The society was established as a cooperative society in the year 1979. Despite being in the business for about four decades, the scale of operation has remained modest as reflected by total operating income of Rs.219.39 crore during FY18 (Unaudited). PAT margin remained low and stood 0.22% during FY18 (Unaudited) owing to limited value addition nature of operations.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

### **Leveraged capital structure and weak debt coverage indicators**

The total debt of the society was Rs. 142.22 crore as on March 31, 2018 (Unaudited) as against the tangible net worth of Rs. 47.34 crore as on March 31, 2018 (unaudited) resulting in leveraged capital structure for the firm as marked by the overall gearing of 3.00x as on March 31, 2018 (Unaudited) (as against 2.61x as on March 31, 2017). Moreover, due to low profitability and high gearing levels, the debt coverage indicators of the society were also weak as reflected by interest coverage ratio of 1.26x and total debt to GCA of 43.99x as at the end of FY18 (Unaudited).

### **Working capital intensive nature of operations**

The operations of the society remained working capital intensive owing to seasonality associated with availability of raw material. The working capital requirements of the society are met by the working capital limits facility and the average utilization of the limit remains on a moderate side in the peak season (October to May).

### **Susceptibility to adverse changes in government regulations and climatic condition**

The price of raw cotton is highly volatile in nature owing to its seasonal nature and the price is regulated through function of MSP by the government along with export of cotton. Hence, any adverse change in government policy and climatic condition may negatively impact the prices of raw cotton in domestic market and could result in lower realizations and profit for LNSGL.

### **Presence in seasonal and fragmented industry**

Operation of cotton business is highly seasonal in nature, as the spreading season is from March to July and the harvesting season is spread from November to February. Furthermore, the cotton industry is highly fragmented with large number (approx. 80%) of players operating in the unorganized sector. Hence, LNSGL faces stiff competition from other players operating in the same industry, which further result in its low bargaining power against its customers.

**Analytical approach:** Standalone

### **Applicable Criteria**

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

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

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

[CARE's methodology for manufacturing companies](#)

### **About the Company**

Nandurbar (Maharashtra) based Loknaya Jayprakash Narayan Shetkari Sahakari Soot Girni Limited (LNSGL) was established as a cooperative society in the year 1979, promoted by Late Shri P.K. Anna Patil. The society has a total of 22 members. The society is engaged in the business of manufacturing of cotton yarn at its manufacturing facilities (two units) located at Nandurbar, Maharashtra, having an aggregate installed capacity of 56,880 spindles per annum. Apart from this, the society is also engaged in ginning and pressing unit for captive consumption to manufacture cotton yarn; for which the society usually procures the raw material (raw cotton and cotton bales) from the domestic market and also from the farmers based out in Nandurbar. The company markets its products under the brand name of "Jay Soot" and further sells its products to power looms and cloth manufacturers.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (UA)
Total operating income	238.02	219.39
PBILDT	8.32	14.31
PAT	0.26	0.48
Overall gearing (times)	2.61	3.00
Interest coverage (times)	1.68	1.27

A: Audited, UA: Unaudited

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History (Last three years):** Please refer Annexure-2

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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## 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 Working Capital Limits	-	-	-	50.00	CARE B+; Stable ISSUER NOT COOPERATING [(Single B); Outlook: Stable] ISSUER NOT COOPERATING

## 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Working Capital Limits	LT	50.00	CARE B+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	1)CARE B+; Stable (05-Apr-18)	-	-	-

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