

Loknayak Jayprakash Narayan Shetkari Sahakari Soot Girni Limited

April 05, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	50	CARE B+; Stable (Single B Plus; Outlook: Stable)	Assigned
Total Facilities	50 (Rupees Fifty crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key rating drivers

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

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.238.02 crore and capital employed of Rs.168.45 crore respectively as on March 31, 2017. The profit margins remained low owing to limited value addition nature of operations.

Leveraged capital structure and weak debt coverage indicators: The capital structure of the society remained leveraged with high utilization of the working capital limit to support the operations. Furthermore, owing to high dependence on debt and low profitability, the debt coverage indicators remained weak.

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 gross current asset days remained at 108 days during FY17. 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 LJNSGL.

Presence in seasonal and fragmented industry: Operation of cotton business is highly seasonal in nature, as the sowing 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, LJNSGL faces stiff competition from other players operating in the same industry, which further result in its low bargaining power against its customers.

Key Rating Strengths

Long operational track record of the society along with experienced and qualified management with awards received for operational efficiency of the society

Established in December 1979, LJNSGL has a long track record of almost four decades in the cotton spinning sector. The society has developed a established network and business relations with customers and suppliers over its years of

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

operation. 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. Being in the cotton industry for such a long period has helped the management in gaining adequate acumen about the industry. The mill has achieved many prestigious awards for best technical, financial & managerial performance from State and All India Cooperative Apex Bodies. The Technical Rating Award Committee, Govt. Of India, Ministry of Textiles have awarded technical rating of Five Star.

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 LNSGL in cotton producing region also fetches a location advantage of lower logistics expenditure.

Analytical Approach: Standalone

Applicable Criteria

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

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

[CARE's Methodology for Cotton Yarn Industry](#)

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

About the Company

Nandurbar (Maharashtra) based LNSGL was established as a cooperative society in the year 1979. The society has a total of 22 members. The society is engaged in the business of manufacturing of cotton yarn at its manufacturing facilities 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 for captive consumption to manufacture cotton yarn; for which the society usually procures the raw material from the domestic market and also from the farmers based out at Nandurbar. The plant is approved by Government of India under Technology Mission of Cotton.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	218.61	238.02
PBILDT	15.41	8.32
PAT	0.41	0.26
Overall gearing (times)	3.47	2.61
Interest coverage (times)	1.28	1.68

A: Audited

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over nearly 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.

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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

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	-	-	-	-

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