

November 10, 2017

## Sukhmani Cotton Industries

### Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Facility	16.00	Provisional [ICRA]BBB-(S)(Stable); Reassigned from its earlier ratings of [ICRA]BB-(Stable)
Short-term Fund-based Facility	1.60	Provisional [ICRA]A3(S); Reassigned from its earlier ratings of [ICRA]A4
Long-term Fund-based Facility	2.00 (enhanced from Nil)	Provisional [ICRA]BBB-(S)(Stable) Reassigned
<b>Total</b>	<b>19.60</b> <b>(enhanced from 17.60)</b>	

\*Instrument details are provided in Annexure-1

The letters S in parenthesis suffixed to a rating symbol stand for support from letter of comfort provided by Manjeet Cotton Private Limited for the borrowings of Sukhmani Cotton Industries.

### Rating action

ICRA has reassigned the long-term rating of Provisional [ICRA]BBB- (S) (pronounced Provisional ICRA triple B minus, S) and short-term rating of Provisional [ICRA]A3 (S) (pronounced Provisional ICRA A Three, S) on the Rs. 17.60-crore fund-based bank facilities of Sukhmani Cotton Industries (SCI or the firm)<sup>1</sup>. ICRA has also assigned long-term ratings of Provisional [ICRA]BBB- (S) (pronounced Provisional ICRA triple B minus, S) on the enhanced amount of Rs. 2.00 crore. The outlook on the long-term rating is Stable. The letters S in parenthesis suffixed to a rating symbol stand for support from letter of comfort provided by Manjeet Cotton Private Limited for the borrowings of Sukhmani Cotton Industries. S ratings do not represent ICRA's opinion on the general credit quality of the issuers concerned. The rating assigned is provisional as of now (as denoted by the symbol 'Provisional' prefixed to the rating symbol) and is subject to the fulfillment of all conditions under the structure and review of final documentation pertaining to the facility rated by ICRA, besides the executed actions/documentation being in line with ICRA's expectations. The final rating may differ from the provisional rating in case the completed actions/ documentation are not in line with ICRA's expectations.

### Rationale

ICRA's rating action takes into account the letter of comfort (LOC) issued by Manjeet Cotton Private Limited (MCPL) in favour of the borrowings of SCI. The rating is based on the strength of this LOC from MCPL. The rating is subject to the execution of the aforesaid LOC in the next 60 days, by fulfilling all conditions as reviewed by ICRA.

Furthermore, ICRA's ratings factors in the inherent risks of the cotton-ginning industry such as limited value addition and the fragmented nature of the industry. SCI has commenced processing cotton seeds into cotton oil and cotton cake, which is likely to support its profitability to some extent. However, the financial profile of the firm remains weak with high working-capital intensity and limited equity infusion by the promoters — gearing of 2.5 times as on March 31, 2017. The ratings also factor in the seasonal nature of the ginning industry as well as the regulatory risks (typical of the ginning industry), which impart volatility to cash flows.

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

However, the ratings derive comfort from SCI's experienced management, which has been involved in the cotton-ginning business for more than two decades as well as the proximity of its manufacturing facilities to the cotton-producing belt of Maharashtra and Madhya Pradesh that facilitates access to raw material.

The ability of the company to improve profitability and attain an optimal working capital cycle will be a key determinant of its debt-coverage indicators and liquidity, and hence will remain the key rating sensitivities.

### **Key rating drivers**

#### **Credit strengths**

- **Issuance of LOC in favour of SCI by MCPL:** SCI is a partnership firm and belongs to the Rajpal family based at Sendhwa, Madhya Pradesh. The Rajpal family owns the "Manjeet Group". The promoters of the firm are involved in the cotton-ginning business over the past two decades. The flagship company of the 'Manjeet Group' i.e. MCPL has provided letter of comfort (LOC) in favour of the borrowings of SCI. However, the LOC is yet to be executed (not submitted to the banker).
- **Extensive experience of the promoter group:** The promoters of the firm are involved in the cotton-ginning business over the past two decades.
- **Proximity to cotton-producing belt ensures easy access to raw material:** SCI's ginning unit is situated in the cotton-growing belt of Madhya Pradesh and Maharashtra, which together constitute a quarter of the total cotton produced in the country.

#### **Credit weaknesses**

- **Limited value addition and fragmented nature of the industry:** The cotton-ginning industry is highly fragmented and competitive in nature owing to the presence of a large number of organised and unorganised players due to low entry barriers in terms of investments and technology. Also, the low value-adding nature of the business results in thin profit margins for the firm.
- **Vulnerable to fluctuations in raw material prices:** The price of cotton as well as the finished products depend on the variation in the demand-supply gap, which is subject to seasonality and crop-harvest. Further, various regulations governing the industry in the form of minimum support price (MSP) and restrictions on export of cotton may lead to fluctuations in prices, exposing the firm's profitability to volatile raw material prices.
- **Seasonal nature of the business:** Cotton is a 'kharif crop', sowed in June and harvested in October. Therefore, the ginning activities also commence in October and lasts till March every year, making the business seasonal. The prices remain moderately low during this period as fresh crop comes into the market. This lures many ginners to store high amount of inventory at the end of March on anticipations of higher prices during the non-season period (i.e. April to September). Although this strategy helps them to garner higher profit during an increase in the cotton prices during the off season, it exposes them to the raw material price fluctuation risk.
- **Stretched financial profile:** SCI's financial profile remains stretched with high working-capital intensity and leveraged capital structure. These, along with low cash accruals, have resulted in weak debt-protection metrics.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

**About the company**

SCI, a partnership firm, was established in July 2010. The firm is primarily involved in cotton ginning. The firm's ginning-cum-pressing unit is located at Hingoli, Maharashtra, where it has installed 49 ginning machines with a combined annual processing capacity of 3.7 lakh quintals of kapas (equivalent to 74,500 bales of cotton). SCI is a part of the Manjeet Group, a leading player in the domestic cotton ginning and trading industry.

In FY2017, the firm has reported a net profit of Rs. 1.4 crore on an operating income (OI) of Rs. 79.5 crore compared with a net profit of Rs. 1.2 crore on an OI of Rs. 80.8 crore in the previous year.

**About the company provided Letter of Comfort i.e. Manjeet Cotton Private Limited**

MCPL is the flagship company of Manjeet Group. The group belongs to Rajpal family of Sendhwa (Madhya Pradesh), engaged in the cotton trading & ginning business. The company was incorporated in 2005 as a private limited company for trading and export operations, and to consolidate the operations of other group companies.

MCPL is primarily engaged in the cotton trading business. The company also has interests in varied business like cotton ginning and oil extraction and Wind Mill business. MCPL has an annual ginning capacity of 1.10 million bales through its thirteen ginning units located in Maharashtra, Madhya Pradesh, Andhra Pradesh and Karnataka and the company figures amongst the largest cotton ginners in the country.

In FY2016, MCPL has reported a net profit of Rs 17.5 crore on an operating income (OI) of Rs. 3083.2 crore compared with a net profit of Rs. 11.9 crore on an OI of Rs. 1347.5 crore in the previous year.

On a provisional basis, MCPL registered an OI of Rs. 3349.9 crore and PAT of Rs. 32.5 crore in FY2017.

**Key financial indicators (audited)**

	FY2016	FY2017
Operating Income (Rs. crore)	80.78	79.54
PAT (Rs. crore)	1.21	1.35
OPBDIT/ OI (%)	2.85%	3.47%
RoCE (%)	12.03%	9.31%
Total Debt/ TNW (times)	3.05	2.47
Total Debt/ OPBDIT (times)	8.59	7.01
Interest Coverage (times)	2.39	3.09
NWC/ OI (%)	31%	30%

*OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);*

*NWC: Net Working Capital*

(Source: SCI's audited financials)

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

**Any other information:** Not applicable

**Rating history for last three years**
**Table**

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				November 2017	September 2017	November 2016	December 2015	December 2014
1	Fund based	Long term	16.00	Provisional [ICRA]BBB-(S)(Stable)	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)
2	Fund based	Short term	1.60	Provisional [ICRA]A3(S)	[ICRA]A4	[ICRA]A4	-	-
3	Fund based	Long term	2.00	Provisional [ICRA]BBB-(S)(Stable)	-	-	-	-

**Complexity level of the rated instrument**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

**Annexure-1**  
**Instrument Details**

<b>ISIN No</b>	<b>Instrument</b>	<b>Date of Issuance / Sanction</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>Amount Rated (Rs. crore)</b>	<b>Current Rating and Outlook</b>
	Cash credit limit	-	-	-	16.00	Provisional [ICRA]BBB-(S)(Stable)
	Gold Card (Short term)	-	-	-	1.60	Provisional [ICRA]A3(S)
	Term Loan	2017	-	2022	2.00	Provisional [ICRA]BBB-(S)(Stable)

Source: Sukhmani Cotton Industries

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About ICRA Limited:

**ICRA Limited** was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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