

November 08, 2019

## The Central Arecanut and Cocoa Marketing and Processing Co-operative Limited: Ratings reaffirmed; outlook on long-term rating revised to Stable from Positive

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Working Capital Facilities	300.00	149.00	[ICRA]A-; rating reaffirmed; outlook revised to Stable from Positive
Fund-based - Term Loan	0.00	37.66	[ICRA]A-; rating reaffirmed; outlook revised to Stable from Positive
Non-fund Based - Working Capital Facilities	4.75	4.75	[ICRA]A2+; reaffirmed
<b>Total</b>	<b>304.75</b>	<b>191.41</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The revision in the rating outlook takes in to account the volatility in arecanut prices and trading volumes in the first half of CY2019, which had adversely impacted profit margins and debt coverage metrics of The Central Arecanut and Cocoa Marketing and Processing Co-operative Limited (CAMPCO) in FY2019. Any continued volatility in the prices, especially due to competition from cheaper imports, may constrain CAMPCO's ability to grow revenues and expand margins. The rating continues to be constrained by CAMPCO's low operating profit margins owing to the trading business. The co-operative continues to be exposed to inventory risk, given the relatively high inventory holding period for white arecanut. As a result, its profitability remains exposed to adverse movements in white arecanut prices. Nonetheless, the increase in the value of white arecanuts with ageing, mitigates the risk to some extent. The rating is also constrained by the vulnerability of arecanut prices to competition from local traders as well as importers.

The ratings, however, continue to draw comfort from the established position of CAMPCO in the arecanut trading business with more than 40 years of experience and the healthy market share of around 15% in domestic arecanut trading. ICRA notes that India is the largest producer and consumer of arecanut globally, and CAMPCO is one of the dominant players. The rating continues to draw support from the comfortable gearing (0.83 times as on March 31, 2019) and the adequate debt coverage indicators (PBITDA<sup>1</sup>/ Interest Expenses of 3.08 times as on March 31, 2019) on account of low-term borrowings and low average utilisation of working capital limits.

Going forward, the level of arecanut inventory, its price volatility and demand-supply situation would be the key monitorable. Besides, the competition from imported arecanut is significantly influenced by Government policies, which have historically supported the domestic industry. However, the future regulatory developments in the industry will be a key rating sensitivity.

<sup>1</sup> Includes non-operating income, mainly in the form of interest charged to debtors on overdue payments

## Key rating drivers and their description

### Credit strengths

**Established operations with vast experience in arecanut industry** - CAMPCO is one of the largest players in arecanut trading in India, with more than four decades of experience. At present, it has a market share of close to 15% of the organised market. The co-operative's strong relationship with suppliers and customers supports its business risk profile.

**Comfortable gearing because of low average borrowing despite moderate working capital intensity**- Despite its moderate working capital intensity (between 25-30% of operating income) CAMPCO has comfortable gearing levels with relatively low level of working capital borrowings due to strong net worth base. It is also able to fund some of its working capital requirements through deposits accepted from its members.

**Comfortable debt coverage indicators**- Due to the low gearing and limited term borrowings, CAMPCO's debt coverage metrics are comfortable. The interest coverage ratio (PBITDA/ Interest) remained at around 3.08 times for FY2019.

### Credit challenges

**Operating profit margin remains low due to nature of business** - The operating profit margin remains low because of the trading business and CAMPCO's status as a co-operative society, set up for benefitting its grower members.

**Profit margins vulnerable to adverse arecanut price movements** – The operating profit margin remains vulnerable to adverse movements in arecanut prices, especially in the white arecanut segment where the inventory is not backed by orders. The margins in the arecanut segment were subdued in FY2019, since CAMPCO's average procurement cost during the year was higher without commensurate increase in realisations.

**Arecanut price movements influenced by competition from imports and government support**- Arecanut price movements are influenced by competition from cheaper imports from other Asian countries, as witnessed during the fourth quarter of FY2019. Besides, the arecanut business is significantly dependant on Government policies, which have historically supported the domestic industry. Hence, the regulatory developments in the industry continue to be a key rating sensitivity.

### Liquidity position: Adequate

CAMPCO has moderate working capital intensity and seasonal inventory stocking pattern which result in fluctuation in working capital limits utilisation across the year. During the period from April to December 2018, CAMPCO's average working capital utilisation was 62% of the current sanctioned limits. During the peak procurement season of January to March, CAMPCO may be reliant on sanction of additional working capital demand loans from its bankers. Given the established relationship with lenders, comfortable gearing and adequate availability of drawing power, ICRA expects that CAMPCO would be able to obtain such limits to meet peak requirements. Additionally, CAMPCO has planned capex of around Rs 28 crore, which is expected to be funded through fresh term loans of Rs 22 crore. The cash accruals during the year are expected to be adequate to fund the limited repayments on the term loans and the margin money towards working capital requirements and capital expenditure.

## Rating sensitivities

**Positive triggers** – ICRA could upgrade CAMPCO’s rating if it demonstrates a sustained improvement in its operational metrics, leading to improved profitability metrics. Specific credit metrics that could lead to an upgrade of CAMPCO’s rating include interest coverage ratio above 3.5 times and TOL/TNW below 0.90 times on a sustained basis.

**Negative triggers** – Negative pressure on CAMPCO’s rating could arise if its profit margins are impacted by adverse price movements of arecanut or volumes are impacted by unavailability of adequate working capital limits. Specific credit metrics that could lead to downgrade in CAMPCO’s rating includes interest coverage ratio below 2 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodologies for Trading companies</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company

## About the company

The CAMPCO Ltd. was registered as a co-operative society in 1973, with the objective of acting as a central nodal agency for arecanut trading and assisting farmers. Currently, CAMPCO has 15% market share and is the largest supplier of arecanut in the country. Apart from arecanut trading, the co-operative also has a chocolate manufacturing business, which is involved in producing semi-finished and finished products for CAMPCO’s own brands as well as carrying out job work for other major players in the chocolate business. CAMPCO has also ventured into rubber, copper, pepper trading business.

## Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	1741.63	1874.98
PAT (Rs. crore)	46.12	32.50
OPBDIT/OI (%)	3.30%	2.39%
RoCE (%)	10.91%	8.16%
Total Outside Liabilities/Tangible Net Worth (times)	1.09	1.04
Total Debt/OPBDIT (times)	5.39	7.30
Interest Coverage (times)- (OPBDIT/ Interest)	2.54	2.19
Interest Coverage (times)- (PBDIT <sup>1</sup> / Interest)	3.33	3.08
DSCR <sup>2</sup>	0.56	0.43

<sup>1</sup> Includes non-operating income, mainly in the form of interest charged to debtors on overdue payments

<sup>2</sup> Includes cover on the current deposits accepted by CAMPCO

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

**Any other information: None**

**Rating history for past three years**

Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years			
	Type	Amount Rated	Amount Outstanding (as on 30-Sep-2019)	Rating 8-Nov-2019	FY2019 8-Oct-2018	FY2018 13-Sep-2017	FY2017 14-Sep-2016	
1 Cash Credit	Long Term	149.00	-	[ICRA]A- (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	
2 Term Loan	Long Term	37.66	14.84	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	
3 Letter of Credit & Bank Guarantee	Short Term	4.75	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	

*Amount in Rs. crore*

### **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 [click here](#)

### Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA <sup>1</sup>	NA <sup>2</sup>	NA <sup>2</sup>	149.00	[ICRA]A- (Stable)
NA	Term Loan	2014-2019	NA	2021-2027	37.66	[ICRA]A- (Stable)
NA	Letter of Credit & Bank Guarantee	NA	NA	-	4.75	[ICRA]A2+

Source: CAMPCO Ltd

### Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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