



Press Release

Cosmos Industries Limited
December 28, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1	Bank Facilities- Long Term	62.00	IVR B+ Stable (IVR B Plus with stable outlook)
	Total	62.00	

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Cosmos Industries Ltd derives comfort from extensive experience of promoters, proximity to raw material suppliers & key markets and establish relationship with cane growers and moderate recovery rate and improvement in operating revenue and profitability metrics. The rating also considers moderate capital structure and debt protection metrics, volatile operating margin and exposure to risk related to government regulations, exposed to vagaries of nature and cyclical nature of the sugar business.

Key Rating Sensitivities:

Upward Factors:

- Improvement in scale of operations and profitability metrics thereby leading to overall improvement in cash accruals and debt protection parameters
- Sustenance of capital structure and improvement in operating cycle

Downward Factors:

- More than expected dip in operating income and/or profitability impacting the debt coverage indicators and subdued industry scenario affecting the sugar price and offtake
- Deterioration in operating cycle impacting the liquidity
- Negative government regulations



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List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters

The promoters of CIL have around two-decade-long experience in the sugar industry. Long standing presence in the industry has helped them to build established relationships with both customers and suppliers. The Company is likely to benefit from the extensive experience of its promoters over the medium term.

Proximity to raw material suppliers & key markets and establish relationship with cane growers and moderate recovery rate

The nature of the relationship, which a sugar entity shares with the farming community in the command area, is a key measure of its operational strength. All the sugar mills have their own independent command area for procurement of sugarcane. CIL operates in a command area of 15 kilometer of district Dhuri, Punjab. CIL's sugar season starts during November, which usually gets over by March. As mandated by the state government, the firm has to harvest entire sugar cane in its command area during the sugar season.

Improvement in operating revenue and profitability metrics

The operating revenue and profitability metrics of CIL has improved in FY20 driven by increase in capacity utilisation leading to higher absorption of fixed overheads. The operating revenue of the company has increased from Rs. 120.58 crore in FY19 and stood at Rs. 155.14 crore in FY20. The EBITDA margin has increased from 4.32% in FY19 to 6.89% in FY20. With improvement in EBITDA margin and absolute EBITDA, the PAT margin has improved to 0.64% in FY20.

Key Weaknesses

Moderate capital structure and debt protection metrics;

CIL has a moderate capital structure marked by an overall gearing ratio of 2.47x as on March 31, 2020 as compared to 4.12x as on March 31, 2019. The firm's debt protection metrics are moderate market by TOL/ANW of 4.99x as on March 31, 2020.



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Volatile operating margin and exposure to risk related to government regulations

CIL operates in the sugar industry which is exposed to risks related to Government regulations. This makes its operating profitability susceptible to any policy measure announced by the Government to support sugarcane producers and to keep the sugar prices in check. Vulnerability in business due to Government regulations is likely to continue over the medium term.

Exposed to vagaries of nature

Being an agro-based industry, performance of CIL is dependent on the availability of sugarcane crop and its yield, which may get adversely affected due to adverse weather conditions. The climatic conditions and pest related attacks have a bearing on the cane output, which is the primary feedstock for a sugar producer. Climatic conditions, to be precise the monsoons influence various operational strictures for a sugar entity, such as the crushing period and sugar recovery levels. In addition, the degree of dispersion of monsoon precipitation across the sugar cane growing areas also leads to fluctuating trends in sugar production in different regions.

Cyclical nature of the sugar business

The key parameters of the sugar supply in the domestic market for a given sugar season are typically controlled by factor like domestic sugar production, opening sugar stock levels and global sugar production and sugar imports. The industry is highly cyclical in nature because of variations in the sugarcane production in the country with typical sugar cycles lasting three five years, as production adjusts to the fall in prices, which in turn leads to lower supplies, price increase and higher production.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)



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Liquidity: Adequate

The company's liquidity seems stretched driven by GCA of Rs. 1.99 crore in FY20 as against the repayment obligation of Rs. 7.33 crore. However same was funded from the capital infusion from the promoters in the form of share premium. However, its bank limits remained utilized to the extent of ~65% during the past 12 months ended November 2020 indicating an adequate liquidity buffer.

About the company

Cosmos Industries Limited (CIL) was set up by one Yadav Family in 1998 at Dhuri, Sangrur district, Punjab and is engaged in the manufacturing of White Crystal Sugar with initial installed capacity of 3200 TCD and its by products such as Molasses, Bagasse. The company is having its Registered Office at Dhuri, Sangrur district, Punjab, Punjab. The day to day affairs of the company are being looked after by Sh. Kunal Yadav Managing Director of the company.

Financials (Standalone):

	(Rs. crore)	
For the year ended* As on	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	120.58	155.14
EBITDA	5.21	10.70
PAT	-0.01	1.01
Total Debt	103.48	90.56
Tangible Net worth	19.30	27.32
EBITDA Margin (%)	4.32	6.89
PAT Margin (%)	-0.01	0.64
Overall Gearing Ratio (x)^	4.12	2.47

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)	Rating History for the past 3 years
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		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash Credit	Long Term	62.00	IVR B+/Stable	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

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the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities- Cash Credit	-	-	-	62.00	IVR B+/Stable

Annexure 2: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Lender-Cosmos-Industries-Limited-28-dec-20-.pdf>