Press Release

PCK Cotton Private Limited

June 06, 2024

Ratings

Instrument / Facility	**Amount (Rs. crore)**	**Current Ratings**	**Previous Ratings**	**Rating Action**	**Complexity Indicator**
Long Term Bank Facilities	7.98 (Reduced from 12.23)	IVR B+/Stable (IVR B Plus with Stable Outlook)	IVR B+/Negative Outlook; ISSUER NOT COOPERATING* (IVR B Plus with Negative Outlook; Issuer Not Cooperating) *	Reaffirmed, Outlook revised and removed from Issuer Not Cooperating category	Simple
Long Term Fund - Based Bank Facilities	24.00	IVR B+/Stable (IVR B Plus with Stable Outlook)	IVR B+/Negative Outlook; ISSUER NOT COOPERATING* (IVR B Plus with Negative Outlook; Issuer Not Cooperating) *	Reaffirmed, Outlook revised and removed from Issuer Not Cooperating category	Simple
Short Term Bank Facilities	0.10	IVR A4 (IVR A Four)	IVR A4 / ISSUER NOT COOPERATING* (IVR A Four; Issuer Not Cooperating) *	Reaffirmed, and removed from Issuer Not Cooperating category	Simple
Short Term Bank Facilities	-- (Reduced from 3.67)	Withdrawn	IVR A4 / ISSUER NOT COOPERATING* (IVR A Four; Issuer Not Cooperating) *	Withdrawn	Simple
Long Term /Short Term Bank Facilities	5.00	IVR B+/Stable / IVR A4 (IVR B Plus with Stable Outlook/ IVR A Four)	--	Assigned	Simple
Proposed Short Term Bank Facilities	2.92	IVR A4 (IVR A Four)	--	Assigned	Simple
Total	**40.00 (Rupees Forty crore only)**				

*Issuer not cooperating; based on best available information.

Details of Facilities are in Annexure 1

Detailed Rationale

Infomerics has reaffirmed the ratings assigned to the bank facilities of PCK Cotton Private Limited and removed it from issuer not cooperating category after availability of requisite information. The ratings continue to factor in experience of promoters in textile industry, and locational advantage emanating from proximity to raw material. The rating strengths are, however, constrained by moderation in scale of operations and profitability, below average financial risk profile, susceptibility of profitability to volatility in raw material prices and intense competition.

The short-term rating assigned to Rs.3.67 crore "Limit Under Gold Card" facility has been withdrawn based on the client request and receipt of 'No Objection Certificate' from the banker. The rating is withdrawn in line with Infomerics' policy on withdrawal of ratings.

Key Rating Sensitivities:

Upward Factors

- Substantial increase in scale of operations along with improvement in profitability on a sustained basis.

Downward Factors

- Any decline in total operating income and profitability impacting the debt protection metrics and liquidity profile of the company.
- Stretch in working capital cycle impacting liquidity of the company.
- Withdrawal of unsecured loan by promoters and/ or deterioration in capital structure impacting the debt protection parameters and liquidity of the company.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experience of promoters in textile industry

The company has been promoted by Mr. Chetan Mehta, Mr. Paras Mehta, and Mrs. Geeta Mehta. Mr. Chetan Mehta, the Managing Director of the company, has around 40 years of experience in the similar line of activity. The company benefits from the promoters' industry experience, their understanding of dynamics of local markets and established relationships with farmers and customers.

Locational advantage emanating from proximity to raw material

The manufacturing facility is located at Jalgaon and Aurangabad region, Maharashtra. These two districts contribute more than 50% to Maharashtra's total cotton production. Further, Maharashtra state in turn produces around 21% of total cotton production of India. Hence, raw material is available in adequate quantity. Furthermore, the presence of the entity in cotton producing region also fetches a location advantage in terms of lower logistics expenditure.

Key Rating Weaknesses

Moderation in scale of operations and profitability

The revenues of the company declined by 66%, to Rs.73.42 crore in FY23 from Rs. 214.31 crore in FY22 due to covid, high export duty imposed by government resulting in no exports in FY23 and Russia-Ukraine war impacting export demand. The company was mainly exporting (81.85%) till FY22. Also, in FY22 focus was on trading (80% of revenues). From FY23 there is a shift towards manufacturing; 68.32% in FY23 and 83.83% in FY24. The company reported operating loss of Rs. 3.34 crore in FY23 as against operating profit of Rs. 4.27 crore in FY22 and negative PAT of Rs. 5.65 crore as against PAT of Rs. 1.00 crore in FY22. However, in FY24 with improvement in cotton prices and demand the company has been able to achieve revenues of Rs. 168.52 crore in FY24 (Prov.) with improvement in EBITDA and PAT to Rs.3.22 crore and Rs.0.71 crore respectively. Accordingly, EBITDA and PAT margin stood moderate at 1.91% and 0.42% respectively in FY24 (prov.).

Below average financial risk profile

Financial risk profile of the company is marked by small net worth, leveraged capital structure and below average debt protection metrics. The adjusted tangible net worth including quasi equity of Rs.1.22 crore stood at Rs. 2.63 crore as on March 31, 2024 (prov.). The ATNW declined from Rs.7.45 crore in FY22 to Rs.1.92 crore in FY23 on account of losses incurred in FY23. The total debt of the company stood at Rs. 29.76 crore as on March 31, 2024, and consists of working capital borrowings of Rs.24.70 crore, term loan and GECL loans of Rs. 5.06 crore. Capital structure continues to be leveraged with overall gearing on ATNW and TOL/ATNW at 11.30x and 12.70x respectively as on March 31, 2024 (prov.), and 5.69x and 10.31x respectively as on March 31, 2023. The debt protection metrics like interest coverage and DSCR were negative in FY23. However, with improvement in profitability in FY24 interest coverage ratio improved to 1.38x in FY24, however DSCR continues to be below unity. Total debt to GCA also continues to be high at 23.14x in FY24 (prov.) and -4.03x in FY23. The debt protection metrics are expected to remain weak in the medium term.

Susceptibility of profitability to volatility in raw material prices and government policies
Cotton being an agro-commodity is susceptible to agro-climatic risks. The profit margins are highly susceptible to changes in the prices of cotton. The government through the Minimum Support Price (MSP) fixes the price of cotton. However, the purchase price depends on the prevailing demand-supply situation, which restricts bargaining power with suppliers as well. Any adverse movement of cotton prices further impacts profitability. The revenue of the company declined sharply in FY23 because of the high export duty imposed by the government resulting in no exports, the company's major source of revenue.

Intense competition
The company is exposed to intense competition prevalent in the highly fragmented cotton ginning industry and faces stiff competition from both organised and unorganised players, as a result their bargaining power is moderate. This restricts the players from fully passing on the input cost increases to customers or retaining any benefits of lower input costs. Also, the industry faces risk from its substitutes such as polyester and manmade fibre. Further, the margins of the company are under continuous threat due to seasonal raw material availability.

Analytical Approach: Standalone
Applicable Criteria:

Rating Methodology for Manufacturing Companies.
Financial Ratios & Interpretation (Non-Financial Sector).
Criteria on assigning Rating outlook.
Policy on Default Recognition
Complexity Level of Rated Instruments/Facilities
Policy on withdrawal of rating

Liquidity – Stretched
Liquidity is stretched marked by negative gross cash accruals in FY23 and Rs.1.29 crore in FY24 (prov.) against debt repayment obligation of Rs.1.69 crore in FY23 and Rs.3.40 crore in

FY24.However, promoters supported the company in these years. The gross cash accruals in the projected period FY25-27 are not sufficient to meet debt repayment obligation of Rs.2.83 crore in FY25, Rs.1.90 crore in FY26 and Rs.0.33 crore in FY27. The promoters are expected to infuse liquidity through unsecured loan of Rs.1.30 crore in FY25 and Rs.2.28 crore in FY26 & FY27. Further, average utilisation of working capital limits stood around 67% for last 12 months ended April 2024. Cash and bank balance stood at Rs. 2.06 crore as on March 31, 2024.

About the Company

PCK Cotton Private Limited was incorporated in 1998 by Mr. Chetan Mehta. The company is engaged in the business of cotton ginning, pressing, and trading activity of cotton seed oil extraction. It is involved in trading activities of cotton bales, cotton seeds, cotton cake, and cotton seed oil. It has owned manufacturing units at Jalgaon and a leased unit at Aurangabad, Maharashtra.

Financials (Standalone):

(Rs. crore)

For the year ended/ As on*	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	214.31	73.42
EBITDA	4.27	-3.34
PAT	1.00	-5.65
Total Debt	26.18	19.82
Tangible Net Worth	6.35	0.70
EBITDA Margin (%)	1.99	-4.55
PAT Margin (%)	0.46	-7.66
Overall Gearing Ratio (x)	3.52	29.98
Interest Coverage (x)	1.70	-1.76

** As per Infomerics Standard*

Status of non-cooperation with previous CRA:

CARE Ratings in their press release dated April 25, 2024, continue to classify the case under issuer not cooperating status on account of non-submission of relevant information.

CRISIL Ratings in their press release dated June 23, 2023, continue to classify the case under issuer not cooperating status on account of non-submission of relevant information.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-21	Date(s) & Rating(s) assigned in in 2020-21
1.	Long Term Fund Based Bank Facilities - Term Loan/ GECL	Long Term	7.98	IVR B+/Stable (IVR B Plus with Stable Outlook)	**(August 16, 2023)** IVR B+/Negative Outlook; ISSUER NOT COOPERATI NG*	**(July 11, 2022)** IVR BB-/ Stable Outlook	--
3.	Long Term Fund Based Bank Facilities – Cash Credit	Long Term	24.00	IVR B+/Stable (IVR B Plus with Stable Outlook)	**(August 16, 2023)** IVR B+/Negative Outlook; ISSUER NOT COOPERATI NG*	**(July 11, 2022)** IVR BB-/ Stable Outlook	--
4.	Short Term Non-Fund Based Facilities – Bank Guarantee	Short Term	0.10	IVR A4 (IVR A Four)	**(August 16, 2023)** IVR A4; ISSUER NOT COOPERATI NG*	**(July 11, 2022)** IVR A4	--
5.	Short Term Non-Fund Based Facilities – Proposed Bank Guarantee	Short Term	2.92	IVR A4 (IVR A Four)	--	--	--
6.	Long-term/ Short-term Facilities – Foreign Usance Bills Discounted (FUBD)/ Foreign Bills Purchased (FBP)	Long-term/ Short-term	5.00^	IVR B+/Stable / IVR A4 (IVR B Plus with Stable Outlook/ IVR A Four)	--	--	--
7.	Short Term Fund Based Facilities – Limit Under Gold Card	Short Term	-- (Reduced from 3.67)	Withdrawn	**(August 16, 2023)** IVR A4; ISSUER NOT COOPERATING*	**(July 11, 2022)** IVR A4	--

^Rs. 3.00 crore is cash credit sublimit of FUBD/FBP.
^Rs. 0.50 crore is Export Packing Credit sublimit of FUBD/FBP.
^Rs. 0.50 crore is Packing Credit in Foreign currency sublimit of FUBD/FBP.

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information and definition of ratings please visit www.infomerics.com.

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 Fund Based Bank Facilities - Term Loan	-	-	April 2025	0.22	IVR B+/Stable
Long Term Fund Based Bank Facilities – GECL	-	-	July 2024	0.34	IVR B+/Stable
Long Term Fund Based Bank Facilities – GECL	-	-	December 2026	1.16	IVR B+/Stable
Long Term Fund Based Bank Facilities – GECL	-	-	December 2026	6.26	IVR B+/Stable
Long Term Fund Based Bank Facilities – Cash Credit	-	-	-	24.00	IVR B+/Stable
Short Term Non-Fund Based Facilities – Bank Guarantee	-	-	-	0.10	IVR A4
Short Term Non-Fund Based Facilities – Proposed Bank Guarantee	-	-	-	2.92	IVR A4
Long-term/ Short-term Facilities – FUBD/FBP	-	-	-	5.00^	IVR B+/Stable / IVR A4

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details
https://www.infomerics.com/admin/prfiles/len-PCKCotton-june24.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.