Rating Update

March 11, 2024 | Mumbai

Cosco India Limited

Update as on March 11, 2024

This update is provided in continuation of the rating rational below.

The key rating sensitivity factors for the rating include:

Upward factors

- Sustained revenue growth with stable operating margin of above 7%, leading to cash accrual more than Rs 10 crore per annum
- Sustenance of financial risk profile

Downward factors

- Steep decline in revenue or profitability dropping below 5.5%, resulting in cash accrual less than Rs 4 crore
- Any large, debt-funded capex
- Further stretch in the working capital cycle, with GCAs more than 270 days

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, CRISIL Ratings seeks regular updates from companies on the business and financial performance. CRISIL Ratings is, however, awaiting adequate information from Cosco India Limited (Cosco) which will enable us to carry out the rating review. CRISIL Ratings will continue provide updates on relevant developments from time to time on this credit.

CRISIL Ratings also identifies information availability risk as a key credit factor in the rating assessment as outlined in its criteria 'Information Availability Risk in Credit Ratings'.

About the Company

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Rating Rationale

January 02, 2023 | Mumbai

Cosco India Limited

Rating reaffirmed at 'CRISIL BBB / Stable'

Rating Action

Total Bank Loan Facilities Rated	**Rs.34 Crore**
Long Term Rating	**CRISIL BBB/Stable (Reaffirmed)**

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1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed rationale

CRISIL Ratings has reaffirmed its 'CRISIL BBB/Stable' rating on the long-term bank facilities of Cosco India Ltd (Cosco).

The rating continues to reflect the established brand, strong market position and comfortable financial risk profile of Cosco. These strengths are partially offset by susceptibility to intense competition, large working capital requirement and exposure to volatility in raw material prices.

Analytical approach

Unsecured loan (Rs 33.5 crore as on March 31, 2022) extended by the promoter has been treated as neither debt nor equity as this amount is expected to remain in the business over the medium term.

Key rating drivers and detailed description

Strengths

Established brand and strong market position, supported by diversified product profile

Longstanding presence in the industry has helped establish the brand, Cosco, and build pan-India presence in the sports goods and fitness equipment business. The company has strong potential to leverage its brand, accreditation, and quality.

Cosco manufactures sports goods such as football, tennis ball, basketball, and volleyball, and trades in treadmills, and equipment related to cricket and fitness. Having a diverse range of products lowers dependence on a single segment for revenue and profit generation.

Comfortable financial risk profile

Financial risk profile should remain supported by nil reliance on long-term debt and the absence of any large, debt-funded capital expenditure (capex). Networth stood at Rs 45.80 crore and gearing low at 0.35 time as on March 31, 2022 (expected at more than Rs 47.00 crore and below 0.50 time, respectively, as on March 31, 2023). Debt protection metrics were average, with interest coverage ratio of 1.87 times and net cash accrual to total debt ratio of 0.22 time in fiscal 2022.In absence of any large debt funded capex plan, financial risk profile is expected to remain comfortable in near term as well.

Weaknesses

Susceptibility to intense competition

Intense competition from large regional players and Chinese products may continue to constrain scalability, pricing power and profitability. Revenue has been Rs 125-145 crore for the eight fiscals through 2022; it stood at Rs 71.8 crore in the first half of fiscal 2023 and should reach Rs 140-145 crore for the full fiscal.

Large working capital requirement

The working capital cycle may continue to be stretched and will remain closely monitored. Gross current assets (GCAs) were sizeable at 264 days as on March 31, 2022, driven by huge inventory given the diverse range of products; GCAs are projected at 260-270 days over the medium term. The company started maintaining higher inventory to combat the challenge of increased lead times for delivery of fitness equipment supply from China; thus, inventory increased to around 195 days as on March 31, 2022, from 150 days in the past.

Exposure to volatility in raw material prices

Price of synthetic rubber, the key raw material, is strongly correlated to the cost of crude oil, which tends to be volatile. Fluctuations in raw material prices may constrain the operating margin, as the impact can be passed on only with a lag of 2-3 months. Earnings before interest, tax, depreciation and amortisation margin stood at 6.4% in fiscal 2022 and may drop to 5.0-5.5% in fiscal 2023 as the margin declined in the first half of the fiscal due to increase in raw material cost and freight charges.

Liquidity: Adequate

In the absence of any yearly debt obligation, the entire cash accrual -- expected at Rs 3-4 crore per annum -- will aid financial flexibility. Bank limit was utilised at 54% on average over the 12 months through September 2022. Current ratio stood at 2.12 times as on March 31, 2022. Unsecured loan extended by the promoter also aids liquidity.

Outlook: Stable
Cosco should continue to benefit from its established brand name and the extensive experience of the promoter.

Rating sensitivity factors
Upward factors
- Sustained revenue growth with stable operating margin of above 7%, leading to cash accrual more than Rs 10 crore per annum
- Sustenance of financial risk profile

Downward factors
- Steep decline in revenue or profitability dropping below 5.5%, resulting in cash accrual less than Rs 4 crore
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About the company
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Key financials

As on / for the period ended March 31		Sept-22	2022	2021
Operating income	Rs crore	71.8	136.0	147.8
Reported profit after tax (PAT)	Rs crore	0.14	1.9	4.5
PAT margin	%	0.2	1.4	3.1
Adjusted debt/adjusted networth	Times	-	0.35	0.33
Interest coverage	Times	1.35	1.87	2.78

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

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Annexure - Details of instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity level	Rating assigned with outlook
NA	Cash credit	NA	NA	NA	28	NA	CRISIL BBB/Stable
NA	Proposed fund-based bank limit	NA	NA	NA	6	NA	CRISIL BBB/Stable

Annexure - Rating History for last 3 Years

	Current			2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	34.0	CRISIL BBB/Stable		--		--	27-12-21	CRISIL BBB/Stable	30-09-20	CRISIL BBB/Stable	CRISIL BBB/Stable

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit	**28**	**Bank of India**	**CRISIL BBB/Stable**
Proposed Fund-Based Bank Limits	**6**	**Not Applicable**	**CRISIL BBB/Stable**

This Annexure has been updated on 10-Mar-2023 in line with the lender-wise facility details as on 23-Feb-2023 received from the rated entity.

Criteria Details

Links to related criteria
[CRISILs Approach to Financial Ratios]
[Rating criteria for manufaturing and service sector companies]
[CRISILs Bank Loan Ratings - process, scale and default recognition]
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