

## Press Release

### MANJEET COTTON PRIVATE LIMITED

December 29, 2017

### Rating Assigned



<b>Total Bank Facilities Rated*</b>	Rs. 100.00 Cr.
<b>Long Term Rating</b>	SMERA A- / Outlook: Stable

\* Refer Annexure for details

### Rating Rationale

SMERA has assigned long-term rating of '**SMERA A-' (read as SMERA A minus)** on the Rs. 100.00 crore bank facilities of MANJEET COTTON PRIVATE LIMITED. The outlook is '**Stable**'.

Manjeet Cotton Private Limited (MCPL) was incorporated in 2005 as a private limited company to consolidate the existing businesses of other group companies which were operational since 1982. MCPL is engaged in cotton ginning, trading, export and extraction of cotton oil seeds. It is promoted by Mr. Bhupendra Rajpal, Mr. Rajendra Rajpal and Mr. Sanchit Rajpal. MCPL has manufacturing units at 18 cities located in the states of Madhya Pradesh, Maharashtra, Karnataka, Telangana, Odisha and Rajasthan. The company has annual ginning capacity of 1.2 million bales. It also has six wind turbines with capacity of 5 Mega Watts (MW).

### Key Rating Drivers

#### Strengths

- **Established track record of operations and experienced management**

MCPL has an established operational track record of three decades which has helped develop and maintain long standing relations with customers and suppliers. The firm also benefits from its experienced promoters, who possess around three decades of experience in the cotton ginning business.

- **Comfortable financial risk profile**

The financial risk profile of the company is marked by healthy networth, modest gearing and comfortable debt protection metrics. The net worth levels of the company stood at Rs. 187.21 crore as on 31 March, 2017 compared to Rs. 159.70 crore as on 31 March, 2016. The gearing stood at 2.14 times as on 31 March, 2017 vs 1.80 times as on 31 March, 2016. The deterioration in the gearing levels has been due to a fresh term loan availed by the company in FY2017 for purchase of additional machinery. The total debt of Rs. 401.31 crore comprises term loan of Rs. 32.36 crore and working capital borrowing of Rs. 368.94 crore as on 31 March, 2017. The interest coverage ratio (ICR) stood at 3.04 times in FY2017 as against 2.19 times in FY2016. The debt service coverage ratio (DSCR) stood at 2.09 times in FY2017 as against 1.61 times in FY2016. The improvement is in line with improvement in profitability in FY2017. The total outside liabilities to tangible networth (TOL/TNW) stood at 2.66 times in FY2017 and 2.25 times in FY2016. Going forward, SMERA expects the company to maintain its financial risk profile and improve its networth backed by steady accruals and absence of any major debt funded capex plan.

- **Efficient working capital management and adequate liquidity**

The company continues to efficiently manage its working capital requirement with gross current asset (GCA) days at 63 for FY2017 compared to 53 in the previous year. The debtor days stood at 34 and inventory days at 26 in FY2017. Further, the liquidity remains adequate because of comfortable cash accruals against debt repayment obligation. The net cash accruals stood at Rs.39.93 crore as against repayment obligation of Rs.7.41 crore in FY2017. The average cash credit utilisation for the last six months (ending November 2017) stood at around 80 per cent.

- **Proximity to raw materials**

MCPL's manufacturing facilities are located in the states of Madhya Pradesh, Maharashtra, Karnataka, Telangana, Odisha and Rajasthan, which are major cotton producing regions in India. Hence proximity to raw materials has ensured steady supply of raw materials at competitive rates.

### Weaknesses

- **Presence in a highly fragmented and competitive cotton ginning industry**

MCPL operates in a highly fragmented industry characterized by the presence of a large number of unorganised players. Despite such dynamics, the company has a 7 per cent market share in the domestic ginning industry.

- **Volatility in raw material prices and government regulatory constraints**

Cotton prices are regulated by the government through the MSP (Minimum Support Price) mechanism. However, the selling price of the output depends on the prevailing demand-supply situation, restricting bargaining power with customers, thereby impacting margins

- **Agro climatic risks**

Cotton is a seasonal crop and the production of the same is highly dependent upon monsoons. Thus an inadequate monsoon may affect the availability of cotton.

### Analytical Approach

SMERA has considered the standalone business and financial risk profile of Manjeet Cotton Private Limited to arrive at the rating.

### Outlook: Stable

SMERA believes that MCPL will maintain a 'Stable' outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the firm registers significant growth in revenue while achieving improvement in profitability. Conversely, the outlook may be revised to 'Negative' in case of steep decline in profitability or deterioration in the capital structure and liquidity position.

### About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	3355.23	3069.31	1344.20
EBITDA	Rs. Cr.	84.30	67.08	52.60
PAT	Rs. Cr.	29.20	17.38	11.90
EBITDA Margin	(%)	2.51	2.19	3.91
PAT Margin	(%)	0.87	0.57	0.89
ROCE	(%)	14.18	14.01	23.65
Total Debt/Tangible Net Worth	Times	2.14	1.80	1.79
PBDIT/Interest	Times	3.04	2.19	2.11
Total Debt/PBDIT	Times	4.81	4.30	4.50
Gross Current Assets (Days)	Days	63	53	96

### Status of non-cooperation with previous CRA (if applicable)

Not Applicable

### Any other information

Not Applicable

### Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Trading Entities - <https://www.smera.in/criteria-trading.htm>

- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

#### Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

#### Rating History (Upto last three years)

Not Applicable

#### \*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	100.00	SMERA A- / Stable

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#### ABOUT SMERA

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