

Press Release

Manjeet Cotton Private Limited

09 January, 2018



Rating Reaffirmed & Assigned

Total Bank Facilities Rated*	Rs.418.00 Cr* (enhanced from Rs.100.00)
Long Term Rating	SMERA A-/Stable (Reaffirmed & Assigned)
Short Term Rating	SMERA A1 (Assigned)

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the long term rating of '**SMERA A-**' (**read as SMERA A minus**) on the Rs.100.00 crore bank facilities of Manjeet Cotton private Limited (MCPL). Further, SMERA has assigned long term rating of '**SMERA A-**' (**read as SMERA A minus**) and short term rating of '**SMERA A1**' (**read as SMERA A One**) on the Rs. 318.00 crore bank facilities of Manjeet Cotton private Limited (MCPL) . 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 profiles 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.	3,355.23	3,069.31	1,344.20
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	(%)	13.91	13.80	23.54
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	4.76	4.29	4.74
Gross Current Assets (Days)	Days	63	53	96

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>

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

None

Rating History (Upto last three years)

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
29 December, 2017	Cash Credit	Long Term	100.00	SMERA A-/Stable (Assigned)

Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	111.50 (enhanced from Rs. 100.00 crore)	SMERA A-/ Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	94.50	SMERA A-/ Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	60.00	SMERA A-/ Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	44.00	SMERA A-/ Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	40.00	SMERA A-/ Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA A-/ Stable (Assigned)
Term Loans	Not Applicable	Not Applicable	Not Applicable	26.21	SMERA A-/ Stable (Assigned)
Term Loans	Not Applicable	Not Applicable	Not Applicable	5.08	SMERA A-/ Stable (Assigned)
Term Loans	Not Applicable	Not Applicable	Not Applicable	0.45	SMERA A-/ Stable (Assigned)
Term Loans	Not Applicable	Not Applicable	Not Applicable	4.26	SMERA A-/ Stable (Assigned)
Standby Letter of Credit	Not Applicable	Not Applicable	Not Applicable	8.80	SMERA A1 (Assigned)
Standby Letter of Credit	Not Applicable	Not Applicable	Not Applicable	8.80	SMERA A1 (Assigned)
Standby Letter of Credit	Not Applicable	Not Applicable	Not Applicable	4.40	SMERA A1 (Assigned)

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ABOUT SMERA

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