

Press Release

Manjeet Cotton Private Limited

March 07, 2019

Rating Reaffirmed, Assigned and Withdrawn



| | |
|------------------------------|---|
| Total Bank Facilities Rated* | Rs. 518.00 Cr. (Enhanced from Rs.418.00 crore) |
| Long Term Rating | ACUITE A- / Outlook: Stable |
| Short Term Rating | ACUITE A1 |

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and short term rating of '**ACUITE A1**' (read as **ACUITE A one**) to the Rs. 475.48 crore bank facilities of Manjeet Cotton Private Limited (MCPL). The outlook is '**Stable**'.

Acuité has withdrawn the long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and short term rating of '**ACUITE A1**' (read as **ACUITE A one**) to the Rs. 9.11 crore bank facilities of MCPL.

Acuité has assigned a long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and short term rating of '**ACUITE A1**' (read as **ACUITE A one**) to the Rs. 42.52 crore bank facilities of 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 65 lac quintals. It also has wind mills and solar power generation systems with installed capacity of 5 Mega Watts (MW) and 3.47 MW, respectively.

Analytical Approach

Acuité has considered the standalone financial and business risk profile of MCPL to arrive at the rating.

Key Rating Drivers

Strengths

• Established track record of operations and experienced management

MCPL, through its group companies, has been engaged in cotton ginning, trading, export and extraction of cotton oil seeds since 1982. The promoters of the company have gained a combined experience of almost four decades in the cotton industry. Extensive experience of the promoters in the industry has helped the company in acquiring a diversified customer base located all over India. The company has set up its manufacturing plants at 18 different places located in states of Madhya Pradesh, Maharashtra, Karnataka, Telangana, Odisha and Rajasthan. Acuité believes that the company's established position in the industry along with promoters' extensive experience will help the company in maintaining healthy relations with its customers and suppliers.

• Moderate financial risk profile

The financial risk profile of the company is moderate marked by high net worth, high gearing and moderate debt protection metrics. The net worth of the company stood high at Rs.222.64 crore as on March 31, 2018 (including unsecured loans from relatives of Rs.45.54 crore) as compared to Rs.187.21 crore as on March 31, 2017 (including unsecured loans from relatives of Rs.40.68 crore). The company has followed a moderately aggressive financial policy in the past as reflected by its peak gearing of 2.60 times as on March 31, 2018. The total debt of Rs.578.19 crore comprises of Rs.36.45 crore of term loan from the bank and Rs.541.74 crore of short term funding from the bank. Further, the short term debt also comprises Rs.48.71 crore of bills discounted by the bank. The gearing stood moderate at 2.60 times (adjusted gearing of 2.38 times) as on March 31, 2018 against 2.14 times as on March 31, 2017.

Going ahead, Acuite believes that the company will be able to maintain its gearing in the range of 2.00-2.20 times on account of healthy accretion of reserves over the years and absence of any major debt funded capex plan.

The interest coverage ratio stood at 2.52 times for FY2018 against 3.04 times for FY2017. The DSCR stood at 1.76 times for FY2018 against 2.09 times for FY2017. The total outstanding liabilities to total net worth stood at 3.26 times as on March 31, 2018 against 2.66 times as on March 31, 2017. The net cash accruals for FY2018 stood healthy at Rs.44.02 crore against the yearly debt obligations of Rs.7.41 crore. Acuite believes that the company will continue to generate healthy accruals in the near to medium term. Acuite believes that the company's financial risk profile will continue to remain moderate on account of no major capex plans over the near to medium term.

- **Efficient working capital management**

The company has a healthy working capital cycle marked by healthy gross current assets (GCA) of 95 days in FY2018 against 63 days in FY2017. The company generally maintains an inventory period of ~45-50 days during the cotton season. The inventory days stood at 44 days in FY2018 against 26 days in FY2017. Further, the collection period from customers range from 40-45 days against no major credit period from its suppliers (mandi regulations) which leads to a higher reliance on external borrowings. The cash credit utilisation stood fully utilised for the last six months ending January, 2019.

- **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 material has ensured steady supply of raw material at competitive rates.

Weaknesses

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

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

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

Cotton prices are regulated by the government through 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.

Liquidity Profile:

MCPL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.26.33 - 44.02 crore during the last three years through 2017-18, while its maturing debt obligations were in the range of Rs.6.00 - 7.00 crore over the same period. The cash accruals of the company are estimated to remain around Rs.40.00 - 45.00 crore during 2019-21, while the repayment obligations are estimated to be around Rs.6.00-7.00 crore.

The company has comfortable working capital management marked by gross current asset (GCA) days of 95 in FY 2018. The cash credit limit of the company remains utilised at ~ 99 percent during the last 3 months period ended January 2019. The company maintains unencumbered cash and bank balances of Rs.21.29 crore as on March 31, 2018. The current ratio of the company stands healthy at 1.24 times as on March 31, 2018. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accrual against its repayment obligations over the medium term.

Outlook: Stable

Acuite believes that MCPL will maintain a 'Stable' outlook over the medium term on the back of

its experienced management and its moderate financial risk profile. The outlook may be revised to 'Positive' in case the firm is able to deleverage substantially from the current levels. Conversely, the outlook may be revised to 'Negative' in case of deterioration in its working capital cycle, thereby impacting its liquidity.

About the Rated Entity - Key Financials

| | Unit | FY18 (Actual) | FY17 (Actual) | FY16 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 3284.52 | 3355.23 | 3069.31 |
| EBITDA | Rs. Cr. | 101.96 | 84.35 | 67.18 |
| PAT | Rs. Cr. | 30.56 | 29.20 | 17.38 |
| EBITDA Margin | (%) | 3.10 | 2.51 | 2.19 |
| PAT Margin | (%) | 0.93 | 0.87 | 0.57 |
| ROCE | (%) | 12.58 | 13.91 | 13.80 |
| Total Debt/Tangible Net Worth | Times | 2.60 | 2.14 | 1.80 |
| PBDIT/Interest | Times | 2.52 | 3.04 | 2.19 |
| Total Debt/PBDIT | Times | 5.68 | 4.81 | 4.30 |
| Gross Current Assets (Days) | Days | 95 | 63 | 53 |

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|-------------|---------------------------------|-----------|------------------|---------------------------------|
| 09-Jan-2018 | Cash Credit | Long Term | 111.50 | ACUITE A- / Stable (Reaffirmed) |
| | Cash Credit | Long Term | 94.50 | ACUITE A- / Stable (Assigned) |
| | Cash Credit | Long Term | 60.00 | ACUITE A- / Stable (Assigned) |
| | Cash Credit | Long Term | 44.00 | ACUITE A- / Stable (Assigned) |
| | Cash Credit | Long Term | 40.00 | ACUITE A- / Stable (Assigned) |
| | Cash Credit | Long Term | 10.00 | ACUITE A- / Stable (Assigned) |
| | Term Loan | Long Term | 26.21 | ACUITE A- / Stable (Assigned) |
| | Term Loan | Long Term | 5.08 | ACUITE A- / Stable (Assigned) |
| | Term Loan | Long Term | 0.45 | ACUITE A- / Stable (Assigned) |

| | | | | |
|-------------|------------------------|------------|--------|-------------------------------|
| | Term Loan | Long Term | 4.26 | ACUITE A- / Stable (Assigned) |
| | Standby Line of Credit | Short Term | 8.80 | ACUITE A1 (Assigned) |
| | Standby Line of Credit | Short Term | 8.80 | ACUITE A1 (Assigned) |
| | Standby Line of Credit | Short Term | 4.40 | ACUITE A1 (Assigned) |
| 29-Dec-2017 | Cash Credit | Long Term | 100.00 | ACUITE A- / Stable (Assigned) |

***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 | 91.20* | ACUITE A-/ Stable (Reaffirmed) |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 190.00& (Enhanced from Rs.94.50 crore) | ACUITE A-/ Stable (Reaffirmed) |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 83.50# (Enhanced from Rs.40.00 crore) | ACUITE A-/ Stable (Reaffirmed) |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 65.00 | ACUITE A-/ Stable (Reaffirmed) |
| Term loans | Not Applicable | Not Applicable | Not Applicable | 23.78 | ACUITE A-/ Stable (Reaffirmed) |
| Term loans | Not Applicable | Not Applicable | Not Applicable | 4.71 | ACUITE A- (Withdrawn) |
| Stand By Line of Credit | Not Applicable | Not Applicable | Not Applicable | 8.80* | ACUITE A1 (Reaffirmed) |
| Stand By Line of Credit | Not Applicable | Not Applicable | Not Applicable | 13.20 (Enhanced from Rs.8.80 crore) | ACUITE A1 (Reaffirmed) |
| Stand By Line of Credit | Not Applicable | Not Applicable | Not Applicable | 4.40 | ACUITE A1 (Withdrawn) |
| Term loans | Not Applicable | Not Applicable | Not Applicable | 3.76 | ACUITE A-/ Stable (Assigned) |
| Proposed Bank Facility | Not Applicable | Not Applicable | Not Applicable | 38.76 | ACUITE A-/ Stable (Assigned) |

*Sublimit of EPC/PCFC/FBP/FBD/PSFC of Rs.91.20 crore, Sublimit of LC of Rs.29.50 crore, Sublimit of BG of Rs.5.00 crore

&Sublimit of EPC/PCFC/FBP/FBD/PSFC of Rs.94.50 crore, Sublimit of Inland/Foreign LC of Rs.16.00 crore

#Sublimit of EPC/PCFC/FBP/FBD/PSFC of Rs.66.00 crore

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About Acuité Ratings & Research:

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