

Press Release
Manjeet Cotton Private Limited

July 13, 2020

Rating Reaffirmed



Total Facilities Rated*	Rs.518.00 Cr.
Long Term Rating	ACUITE A- / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A1 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE A-**' (**read as ACUITE A minus**) and the short-term rating of '**ACUITE A1**' (**read as ACUITE A one**) to Rs.518.00 crore bank facilities of Manjeet Cotton Private Limited (MCPL). The outlook is '**Stable**'.

Maharashtra based, MCPL was incorporated in 2005 as a private limited company with intent to consolidate the existing businesses of other group companies, which were operational since 1982. MCPL is promoted by Mr. Bhupendra Rajpal, Mr. Rajendra Rajpal and Mr. Sanchit Rajpal. The company is engaged in cotton ginning, trading & exporting of cotton yarn, and extraction of cotton oil from seeds.

MCPL has manufacturing units at 18 different cities with annual capacity of 65 lac quintals. These units are located in the states of Madhya Pradesh, Maharashtra, Karnataka, Telangana, Odisha and Rajasthan. Further, MCPL 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 business and financial risk profile of MCPL to arrive at the rating.

Key Rating Drivers

Strengths

• Long track record of operations and experienced management

MCPL is operating since 1982. MCPL is one of the largest cotton processors in India. MCPL was founded by Mr. Bhupendra Singh Rajpal, and Mr. Rajendra Singh Rajpal, who possess more than three decades of experience in the textile industry. The promoters are also well supported by second generation management, Mr. Sanchit Rajpal. MCPL has established working relationships with number of customers and suppliers in the domestic and international market. MCPL derives 64% of the revenue from local market and 36% through exports in FY2019. MCPL has diversified business profile marked by processing of cotton ginning, trading & exporting of cotton yarn and extraction of cotton seed oil. Moreover, the manufacturing facilities are located in major cotton producing regions of India such as, Madhya Pradesh, Maharashtra, Karnataka, Telangana, Odisha and Rajasthan. The proximity to raw material ensures the steady supply of raw material at competitive rates.

Acuité believes that MCPL will continue to benefit from their established presence in the industry backed by promoters' vintage and diversified business risk profile over the medium term.

• Moderate financial risk profile

MCPL's financial risk profile is moderate, marked by moderate net worth, moderate gearing and healthy debt protection metrics. The net worth of MCPL is healthy at around Rs.247.97 crores as on March 31, 2019 as against Rs.215.92 crore as on March 31, 2018. The net worth levels have seen significant improvement over the last three years through FY2019 on account of healthy accretion to reserves.

The MCPL has followed moderately aggressive financial policy, the same is reflected through its peak gearing in the past around 2.71 times as on March 31, 2018, and improved to 2.08 times as on March 31, 2019. The total outside liabilities to tangible net worth (TOL/TNW) level stood at 2.55 times as on March 31, 2019 as against 3.39 times as on March 31, 2018. The total debt of Rs.516.33 as on March 31, 2019

comprising of working capital borrowings to the tune of Rs.486.92 crore and term loans to the tune of Rs.29.41 crore.

The debt protection metrics are healthy marked by Interest Coverage Ratio (ICR) and Debt Service Coverage Ratio (DSCR) stood at 2.64 times and 1.77 for FY2019 against 2.52 times and 1.76 times for FY2018, respectively. This is due to the growth in revenue in FY2019. NCA/TD stood at 0.09 times in FY2019 as against 0.08 times in FY2018. Acuité believes that the financial risk profile is expected to be at similar levels over the medium term.

• **Efficient working capital management**

The operations of MCPL are managed efficiently marked by GCA days of 79 in FY2019, an improvement from 95 in FY2018. The GCA days are mainly dominated by inventory days stood at 34 days for FY2019 as against 44 days in FY2018. MCPL has peak debtor days of 43 days in FY2018 improved to 32 days in FY2019. Further, creditor days remained in the range of 3-9 days over the last three years through FY2019.

Acuité believes that the efficient working capital management will be crucial to the MCPL in order to maintain a stable credit profile.

Weaknesses

• **Fluctuating revenue and profitability**

MCPL has reported uneven revenue profile during the period under study (FY2017-FY2019). The company achieved revenue of Rs.3600.51 crore in FY2019 as against Rs.3284.52 crore in FY2018 and Rs.3355.23 crore. Further, MCPL has registered turnover of Rs.3162.12 crore in FY2020 (Provisional). The decline in turnover is on the account of restriction on exports with Pakistan and due to Covid-19. Similarly, the operating and net profitability margins has shown fluctuating trend over the same period. The operating and net profitability margins stood at 2.98 percent and 0.91 percent in FY2019 as against 3.10 percent and 0.93 percent in FY2018, respectively. Both stood at 2.51 percent and 0.87 percent in FY2017, respectively.

• **Susceptibility of operating performance to input price volatility, increasing competition and agro climatic risk**

Cotton prices are regulated by the government through MSP (Minimum Support Price) mechanism. The profitability is susceptible to changes in the prices of raw material. However, the selling price of the output depends on the prevailing demand-supply situation restricting bargaining power with customers, thereby impacting margins. MCPL operates in a highly fragmented industry characterised by the presence of a large number of unorganised players. Further, Seed cotton is exposed to agro climatic risks, and the production is also highly dependent upon the monsoon and the climatic conditions. Higher temperature in already hot areas may hinder cotton development and fruit formation resulting in reduced yields.

Rating Sensitivities

- Improvement in operating performance along with profitability margins
- Deterioration of financial risk profile

Material Covenants

None

Liquidity position: Adequate

MCPL has strong liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.39.93-44.13 crore during the last two years through FY2019, while its maturing debt obligations stood in the range of Rs.5.41-7.41 crore over the same period. The cash accruals of the company are estimated to remain in the range of Rs.38-50 crore during 2020-22, while its repayment obligation are estimated to be around Rs.6.00 crore. The working capital operations of the company are efficiently managed marked by gross current asset (GCA) days of 79 in FY2019. The company maintains unencumbered cash and bank balances of Rs.15.44 crore as on March 31, 2019. The current ratio stands at 1.33 times as on March 31, 2019. Acuité believes that the liquidity of the company is likely to remain strong over the medium term on account of healthy cash accrual against repayments over the medium term.

Outlook: Stable

Acuité believes that MCPL will maintain a 'Stable' business risk profile over the medium term supported by experienced management and long track record of operations. The outlook may be revised to 'Positive' in case the company registers healthy growth in its revenues while sustaining the profitability. Conversely, the outlook may be revised to 'Negative' in case of any significant debt-funded capex, or any decline in its profitability leading to deterioration in the company's financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	3600.51	3284.52
PAT	Rs. Cr.	32.68	30.56
PAT Margin	(%)	0.91	0.93
Total Debt/Tangible Net Worth	Times	2.08	2.71
PBDIT/Interest	Times	2.64	2.52

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
07-Mar-2020	Cash Credit	Long Term	91.20*	ACUITE A- / Stable (Reaffirmed)
	Cash Credit	Long Term	190.00&	ACUITE A- / Stable (Reaffirmed)
	Cash Credit	Long Term	83.50#	ACUITE A- / Stable (Reaffirmed)
	Cash Credit	Long Term	55.00	ACUITE A- / Stable (Reaffirmed)
	Term Loan	Long Term	20.40	ACUITE A- / Stable (Reaffirmed)
	Term Loan	Long Term	3.38	ACUITE A- / Stable (Reaffirmed)
	Standby Line of Credit	Short Term	8.80	ACUITE A1 (Reaffirmed)
	Standby Line of Credit	Short Term	13.20	ACUITE A1 (Reaffirmed)
	Term Loan	Short Term	3.76	ACUITE A- / Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	48.76	ACUITE A- / Stable (Reaffirmed)
07-Mar-2019	Cash Credit	Long Term	91.20*	ACUITE A- / Stable (Reaffirmed)
	Cash Credit	Long Term	190.00&	ACUITE A- / Stable (Reaffirmed)
	Cash Credit	Long Term	83.50#	ACUITE A- / Stable (Reaffirmed)
	Cash Credit	Long Term	65.00	ACUITE A- / Stable (Reaffirmed)
	Term Loan	Long Term	23.78	ACUITE A- / Stable (Reaffirmed)
	Term Loan	Long Term	4.71	ACUITE A- / Stable

09-Jan-2018	Standby Line of Credit	Short Term	8.80*	(Withdrawn)
	Standby Line of Credit	Short Term	13.20	ACUITE A1 (Reaffirmed)
	Standby Line of Credit	Short Term	4.40	ACUITE A1 (Withdrawn)
	Term Loan	Long Term	3.76	ACUITE A- / Stable (Assigned)
	Proposed Bank Facility	Long Term	38.76	ACUITE A- / Stable (Assigned)
	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)

*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.16.00crore

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

*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	91.20*	ACUITE A- / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	170.30&	ACUITE A- / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	83.50#	ACUITE A- / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	50.00##	ACUITE A- / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	55.00	ACUITE A- / Stable (Reaffirmed)
Term Loan	Not Available	Not Applicable	Not Available	18.19	ACUITE A- / Stable (Reaffirmed)

Term Loan	Not Available	Not Applicable	Not Available	1.75	ACUITE A- / Stable (Reaffirmed)
Standby Line of Credit	Not Applicable	Not Applicable	Not Applicable	8.80	ACUITE A1 (Reaffirmed)
Standby Line of Credit	Not Applicable	Not Applicable	Not Applicable	13.20	ACUITE A1 (Reaffirmed)
Term Loan	Not Available	Not Applicable	Not Available	3.62	ACUITE A- / Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	22.44	ACUITE A- / Stable (Reaffirmed)

*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.16.00crore

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

##Sublimit of EPC/PCFC/FDBP/FUDBP of Rs.50.00 crore

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Simranjeet Kaur Analyst - Rating Operations Tel: 022-49294052 simranjeet.kaur@acuite.in	

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (*Erstwhile SMERA Ratings Limited*) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.