

Press Release

Manjeet Cotton Private Limited

July 02, 2021



Rating Upgraded, Assigned and Reaffirmed

Total Bank Facilities Rated*	Rs.549.20 Cr. (Enhanced from Rs.518.00 Cr.)
Long Term Rating	ACUITE A/Outlook: Stable (Upgraded from ACUITE A-/Stable)
Short Term Rating	ACUITE A1 (Assigned & Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE A**' (**read as ACUITE A**) from '**ACUITE A-**' (**read as ACUITE A minus**) and reaffirmed the short term rating of '**ACUITE A1**' (**read as ACUITE A one**) on the Rs.499.20 crore bank facilities of Manjeet Cotton Private Limited (MCPL). The outlook is '**Stable**'.

Further, Acuité has assigned the short term rating of '**ACUITE A1**' (**read as ACUITE A one**) on the Rs.50.00 crore bank facilities of Manjeet Cotton Private Limited (MCPL).

Reason for rating upgrade

The rating upgrade is on account of augmentation in the business risk profile marked by significant growth in the scale of operations along with long track record of operations, moderate financial risk profile, working capital efficient nature of operations and adequate liquidity position of the company. The rating also factors in long extensive experience of promoters in the cotton business and strong long term relationships with its customers and suppliers. However, the rating is constrained by thin profitability margins owing to inherent nature of trading business along with susceptibility of profitability margins towards raw material price volatilities and intense competition.

The revenue from operations of the company improved to Rs.6689 Cr. in FY21 (Provisional) as against Rs.3164 Cr. in FY20 resulting in a YoY growth of ~112 percent. The increase in revenues is on account of significant improvement in the trading business of the company owing to aggressive bidding in e auction of one of its key suppliers i.e. Cotton Corporation of India (CCI) for cotton trading. However, the operating profit margin of the company decline to 2.3 percent in FY21 (Provisional) as against 3.5 percent in FY20 on account of increase in cost of traded goods. Further, the company has efficient working capital management marked by improvement in GCA days to 68 days for FY21 (Provisional) as against 80 days for FY20. Acuité however believes that any further deterioration in operating margins and financial risk profile of the company will remain a key rating sensitivity going forward.

About the company

Maharashtra based 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 into 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.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of KKTC to arrive at this rating.

Key Rating Drivers

Strengths

- Established track record of operations in the cotton industry with experienced management**

MCPL is operating since 1982 and 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 the second generation

management, Mr. Sanchit Rajpal. MCPL has established working relationships with number of customers and suppliers in the domestic and international market. MCPL has diversified business profile marked by processing of cotton ginning, trading & exporting of cotton yarn to both domestic and international markets and extraction of cotton seed oil. Moreover, the company has currently 18 manufacturing facilities which are located in major cotton producing regions of India such as, Madhya Pradesh, Maharashtra, Karnataka, Telangana, Odisha and Rajasthan. Further, the proximity to raw material ensures the steady supply of raw material at competitive rates. The experienced of promoters and long track record of operations in the cotton industry has helped the company to maintain healthy and long term relationships with both its customers and suppliers. Furthermore, MCPL derives around 78 percent of the revenue from the domestic market and 22 percent through exports in FY2021 (Provisional).

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.

- **Augmentation in business risk profile**

The company has reported significant improvement in revenue from operations which stood at Rs.6689 Cr. reflecting a YoY growth of 111.9 percent in FY21 (Provisional) as against Rs.3164 Cr. in FY20. The significant improvement in revenues is majorly on account of healthy growth in the trading business of cotton in both domestic and export markets. The major reason for increase in trading business was attributed to bulk trading of cotton bales bought out through bidding from Cotton Corporation of India (CCI). The MSP of cotton remain higher than market price most of the time during last two years which led to low procurement as well as low manufacturing operations but simultaneously it created an opportunity for job work income from other companies who have used MCPL's capacity for processing of raw cotton. As a fall out of high procurement, players like CCI carrying huge stock were bound to offer higher quantity discounts for bigger lots towards which MCPL responded aggressively and roped in many new customers under its belt in overseas as well as in the domestic market. The trading business contributed around 88 percent to the overall turnover in FY21 compared to 56 percent in FY20. Further, the job work income from various other companies also increased from Rs.13 Cr. in FY20 to Rs.26 Cr. in FY21.

Acuité believes that the sustainability in maintaining healthy revenue from operations by the company will remain a key rating sensitivity over the medium term.

- **Moderate financial risk profile**

The financial risk profile of MCPL is moderate marked by moderate net worth, gearing levels and debt protection matrices. The net worth of MCPL stood at Rs.393 Cr. as on March 31, 2021 (Provisional) as against Rs.308 Cr. as on March 31, 2020. The net worth levels of the company have seen significant improvement over the last three years through FY21 on account of healthy accretion to reserves. The net worth also includes unsecured loan from promoters/related parties of Rs.45 Cr. as on 31 March, 2021 (Provisional) and has been treated as quasi-equity as it is subordinated to bank loan. The same has been increased from Rs.42 Cr. same period last year.

The gearing of the company marginally increased to 1.44 times as on 31 March, 2021 (Provisional) compared to 1.13 times same period last year on account of increase in both long term and short term borrowings of the company during the period. The total debt of Rs.564 Cr. as on March 31, 2021 (Provisional) comprising of working capital borrowings to the tune of Rs.458 Cr. and term loans to the tune of Rs.106 Cr. The total outside liabilities to tangible net worth (TOL/TNW) level stood at 2.43 times as on March 31, 2021 (Provisional) as against 1.56 times same period last year. The debt protection metrics of MCPL remained moderate for FY21 (Provisional) marked by net cash accruals to total debt (NCA/TD) which stood at 0.16 times for FY21 (Provisional) compared to 0.19 times for FY20. Further, the interest coverage ratio also marginally improved to 3.72 times in FY21 (Provisional) compared with 3.30 times in FY20 on healthy operating profit of the company.

Acuité believes that the financial risk profile of the firm is expected to remain moderate in the absence of any major debt funded capex in near to medium term.

- **Working capital efficient nature of operations**

The operations of MCPL are managed efficiently marked by low and improved GCA days of 68 days for FY21 (Provisional) compared to 80 days for FY20. The improvement in GCA days are mainly on account of reduction in inventory levels which stood at 12 days for FY21 (Provisional) as against 32 days for FY20. Subsequently, the debtor days also improved to 23 days for FY21 (Provisional) as against 33 days for FY20. Further, the creditor days reduced to 2 days for FY21 (Provisional) as against 7 days for FY20 as major of the traded goods purchased by the company is done on advance payment basis. However, the utilization of

its working capital limits stands around 90 percent in last six months ended March, 2021 and the current ratio of the company remained moderate at 1.49 times as on 31 March, 2021 (Provisional).

Acuité believes that the ability of the company to maintained efficient working capital management will remain a key rating sensitivity.

Weaknesses

- **Susceptibility of operating performance to input price volatility**

Cotton prices are regulated by the government through MSP (Minimum Support Price) mechanism. The price difference between the market price and MSP of cotton plays a significant role towards the profitability of the company. Higher MSP increases the unavailability of raw cotton for the manufacturing operations whereas the same increases the trading business of the company which impacts the profitability of the company. Due to high trading operations of the company in FY21, the operating profit margin declined to 2.3 percent in FY21 (Provisional) as compared to 3.5 percent in FY20. Further, the profitability is also susceptible to changes in the prices of raw material i.e. raw cotton. However, the selling price of the output depends on the prevailing demand-supply situation restricting bargaining power with customers, thereby impacting margins.

- **Competitive nature of industry and agro climatic risk**

MCPL operates in a highly fragmented industry characterized by the presence of a large number of unorganized players, thus limiting the pricing power. Further, the raw material availability is highly depend upon the climatic conditions as seed cotton is exposed to agro climatic risks and the production is highly dependent upon the monsoon and the other climatic conditions. Higher temperature in already hot areas may hinder cotton development and fruit formation resulting in reduced yields and scarcity of raw cotton.

Rating Sensitivity

- Improvement in revenues while maintaining profitability margins
- Stretch in working capital cycle leading to high dependence of bank borrowing and deterioration in liquidity position

Material covenants

None

Liquidity: Adequate

MCPL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.90 Cr. during FY21 (Provisional) while its maturing debt obligations stood around Rs.5 Cr. over the same period. The cash accruals of the group are estimated to remain in the range of Rs.109-143 Cr. during 2022-24 period while its repayment obligation are estimated to be around Rs.4 - 26 Cr. during the same period. The working capital operations of the company are efficiently managed marked by gross current asset (GCA) days of 68 days for FY21 (Provisional). The company maintains unencumbered cash and bank balances of Rs.9 Cr. as on March 31, 2021 (Provisional) and the current ratio stands moderate at 1.49 times during the same period. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of adequate cash accruals 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 healthy scale of operations, 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	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	6689	3164
PAT	Rs. Cr.	81	57
PAT Margin	(%)	1.2	1.8
Total Debt/Tangible Net Worth	Times	1.44	1.13
PBDIT/Interest	Times	3.72	3.30

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

Not Available

Any other information

Not Available

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.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
13-July-2020	Cash Credit	Long Term	91.20*	ACUITE A- / Stable (Reaffirmed)
	Cash Credit	Long Term	170.30&	ACUITE A- / Stable (Reaffirmed)
	Cash Credit	Long Term	83.50#	ACUITE A- / Stable (Reaffirmed)
	Cash Credit	Long Term	50.00##	ACUITE A- / Stable (Reaffirmed)
	Cash Credit	Long Term	55.00	ACUITE A- / Stable (Reaffirmed)
	Term Loan	Long Term	18.19	ACUITE A- / Stable (Reaffirmed)
	Term Loan	Long Term	1.75	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	Long Term	3.62	ACUITE A- / Stable (Reaffirmed)
04-June-2020	Proposed Bank Facility	Long Term	22.44	ACUITE A- / Stable (Reaffirmed)
	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	Long 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- (Withdrawn)
	Standby Line of Credit	Short Term	8.80	ACUITE A1 (Reaffirmed)
	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)
09-Jan-2018	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
 ##Sublimit of EPC/PCFC/FDBP/FUDBP of Rs.50.00 crore

***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 (Upgraded from ACUITE A /Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	170.30&	ACUITE A/Stable (Upgraded from ACUITE A /Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	83.50#	ACUITE A/Stable (Upgraded from ACUITE A /Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	50.00# #	ACUITE A/Stable (Upgraded from ACUITE A /Stable)
Term Loan	Sep, 2017	8.50%	Sep, 2027	14.78	ACUITE A/Stable (Upgraded from ACUITE A /Stable)
Term Loan	Jan, 2016	8.50%	June, 2021	0.84	ACUITE A/Stable (Upgraded from ACUITE A /Stable)
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)
Post Shipment/ Cash Credit	Not Applicable	Not Applicable	Not Applicable	55.00**	ACUITE A/Stable (Upgraded from ACUITE A /Stable)
Term Loan	Not Available	8.15%	Not Available	3.62	ACUITE A/Stable (Upgraded from ACUITE A /Stable)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	7.96	ACUITE A/Stable (Upgraded from ACUITE A /Stable)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A1 (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	25.00	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/ FBP/FBD of Rs.170.30 crore, Sublimit of Inland/Foreign LC of Rs.35.00 crore and Sublimit of BG of Rs.5.00 crore
 #Sublimit of EPC/PCFC/FBP/FBD/PSFC of Rs.69.00 crore
 ** Sublimit of BG of Rs.3.00 crore; Sublimit of CC of Rs.35.00 crore and Sublimit of Pre-shipment of Rs.55.00 crore
 ##Sublimit of EPC/PCFC/FDBP/FUDBP of Rs.50.00 crore

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