

Press Release

Manjeet Cotton Private Limited

December 08, 2022



Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	477.20	ACUITE A Stable Upgraded	-
Bank Loan Ratings	72.00	-	ACUITE A1 Upgraded
Total Outstanding Quantum (Rs. Cr)	549.20	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE A (read as ACUITE A)**' from **ACUITE BBB+ (read as ACUITE triple B plus)** and the short-term rating to **ACUITE A1 (read as ACUITE A one)** from **ACUITE A2+ (read as ACUITE A two plus)** on the Rs. 549.20 Cr bank facilities of Manjeet Cotton Private Limited (MCPL). The outlook is **Stable**.

Rationale for the rating upgrade

The rating upgrade is on account of stable operating and financial performance of MCPL, marked by stable operating income, operating profitability and moderate financial risk profile. The revenue of the Company stood at Rs. 7000.54 Cr in FY22 as against Rs. 6713.19 Cr in FY21, while its operating profitability though thin, improved to 2.91 percent in FY2022 as against 2.64 percent in FY2021. The increase in revenues and thin profitability margins are on account of increased contribution from the trading segment. Owing to aggressive bidding in e-auction of one of its key suppliers i.e. Cotton Corporation of India (CCI) for cotton trading, MCPL's scale of operations surged in the last two years. However, with increase in market prices of cotton vis-à-vis government fixed minimum selling prices, Acuite believes revenues of MCPL will moderate over the near to medium term due to expected reduction in trading.

The financial risk profile of the Company continues to remain moderate, marked by healthy net-worth, moderate gearing and comfortable debt protection metrics. Going forward, MCPL's ability to maintain its scale of operations and profitability margins without deterioration in its financial risk profile and working cycle will remain a key rating monitorable.

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, cotton seeded-linting, spinning and weaving. It is promoted by Mr. Bhupendra Rajpal, Mr. Rajendra Rajpal and Mr. Sanchit Rajpal. It has manufacturing units at 18 cities located in the states of Madhya Pradesh, Maharashtra, Karnataka, Telangana, Odisha and Rajasthan.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of MCPL 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 75-80 percent of the revenue from the domestic market and remaining through exports. The operating income of the company stood at Rs. 7000.54 Cr. in FY22 as against Rs. 6713.19 Cr in FY21. The company has registered a revenue of ~Rs. 1324.20 Cr. in H1FY23 and is expected to close the year in the range of ~Rs.4000-5000 Cr.

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**

The financial risk profile of MCPL is moderate marked by healthy net worth, moderate gearing levels and comfortable debt protection matrices. The net worth stood at Rs. 501.04 Cr. as on March 31, 2021 as against Rs. 376.34 Cr. as on March 31, 2021. The net-worth increased due to accretion of profits to reserves. The total debt of Rs. 669.99 Cr. as on March 31, 2022 includes long term borrowings of Rs. 156.61 Cr ,working capital borrowings of Rs. 484.27 Cr. and unsecured loans of Rs. 29.11 Cr. The company's overall gearing improved to 1.34 times as on March 31, 2022 as against 1.64 times as on March 31, 2021. The TOL/TNW improved to 1.79 times as on March 31, 2022 as against 2.76 times as on March 31, 2021. The Debt protection metrics of the Company is comfortable, marked by interest coverage ratio of 4.75 times in FY22 as against 4.07 times in FY21. The NCA/TD improved to 0.20 times in FY22 as against 0.18 times in FY21.

Acuité expects MCPL's financial risk profile to remain moderate over the medium term in the absence of any major debt funded capex plan.

- **Working capital efficient nature of operations**

The operations of MCPL are working capital efficient marked by Gross current asset (GCA) days of 61 days in FY22 as against 71 days for FY21. The improvement in GCA days are mainly on account of reduction in debtor days which stood at 15 days in FY22 as against 22 days in FY21. The inventory days increased to 31 days in FY22 as against 15 days in FY21. The creditor days on the company stood low at 7 days in FY22 as against 2 days in FY21 as majority of the raw materials are purchased from farmers and the payment is done on advance or spot basis. The average utilization of its working capital bank limits stood in the range of 50-60 percent in last six months ended October, 2022.

Acuite believes with the expected moderation in scale of operations, the company's ability to maintain its efficient working capital cycle will be a key rating monitorable.

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 FY22, the operating profit margin remained thin, though it recorded marginal improvement as it stood at 2.91 percent in FY2022 as against 2.64 percent in FY2021. 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.

ESG Factors Relevant for Rating

Incase of agricultural products industry, crop and livestock production has a substantial environmental impact. Cotton cultivation severely degrades soil quality. Conventional production practices for cotton involve the application of substantial fertilizers and pesticides. On the social front, employee health & safety management are of primary importance to this industry. Furthermore, employment quality and human rights concerns such as child labour are crucial considering the exploitative industry practices. Factors such as business ethics, management and board administration hold primary importance on the governance front.

MCPL has taken up various initiatives on social and environmental causes. The company has organised different welfare programs for upliftment of farmers. It has also given financial and technical support to NGOs engaged in rendering their services to farmers. It plans to open education centres in different villages for farmer upliftment. Further, as a part of its steps towards environment sustainability, its factories are largely operated vide solar power which is captively produced.

Rating Sensitivities

- Ability to maintain its scale of operations and profitability margins
- Stretch in working capital cycle leading to high dependence of bank borrowing and deterioration in liquidity position

Material covenants

None

Liquidity Position: Adequate

MCPL 's liquidity position is adequate marked by healthy net cash accruals against maturing debt obligations. The company generated cash accruals of Rs.136.33 Cr in FY22 and Rs. 109.51 Cr. in FY2021 against maturing debt obligations of approx. Rs. 4-6 Cr over the same period. Going forward, the cash accruals of the company are estimated to remain around Rs. 75-80 crore during 2023-24 period against maturing debt obligations of around Rs. 33-36 Cr. The company's working capital operations are efficiently managed marked by Gross Current Asset (GCA) days of 61 days in FY22. The average utilization of the fund based bank limits of the company was moderate as it ranged between 50- 60 percent in last six months ended October, 2022. MCPL maintains unencumbered cash and bank balances of Rs. 58.41 crore as on March 31, 2022. The current ratio of the company stood at 1.64 times as on March 31, 2022.

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 more than expected deterioration in scale of operations and profitability margins or any significant debt funded capex plan leading to deterioration in the company's financial risk profile and liquidity position.

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	7000.54	6713.19
PAT	Rs. Cr.	124.49	99.46
PAT Margin	(%)	1.78	1.48
Total Debt/Tangible Net Worth	Times	1.34	1.64
PBDIT/Interest	Times	4.75	4.07

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>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of the instruments across the three categories is based on factors like variability of the returns to

the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
23 Sep 2022	Cash Credit	Long Term	91.20	ACUITE BBB+ (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	0.84	ACUITE BBB+ (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	3.62	ACUITE BBB+ (Downgraded and Issuer not co-operating*)
	Bank Guarantee	Short Term	25.00	ACUITE A2+ (Downgraded and Issuer not co-operating*)
	Standby Line of Credit	Short Term	8.80	ACUITE A2+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	170.30	ACUITE BBB+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	83.50	ACUITE BBB+ (Downgraded and Issuer not co-operating*)
	Bank Guarantee	Short Term	25.00	ACUITE A2+ (Downgraded and Issuer not co-operating*)
	Proposed Bank Facility	Long Term	7.96	ACUITE BBB+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	50.00	ACUITE BBB+ (Downgraded and Issuer not co-operating*)
	Post Shipment Credit	Long Term	55.00	ACUITE BBB+ (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	14.78	ACUITE BBB+ (Downgraded and Issuer not co-operating*)
	Standby Line of Credit	Short Term	13.20	ACUITE A2+ (Downgraded and Issuer not co-operating*)
02 Jul 2021	Cash Credit	Long Term	91.20	ACUITE A Stable (Upgraded from ACUITE A- Stable)
	Cash Credit	Long Term	170.30	ACUITE A Stable (Upgraded from ACUITE A- Stable)
	Cash Credit	Long Term	50.00	ACUITE A Stable (Upgraded from ACUITE A- Stable)
	Cash Credit	Long Term	83.50	ACUITE A Stable (Upgraded from ACUITE A- Stable)
	Term Loan	Long Term	3.62	ACUITE A Stable (Upgraded from ACUITE A- Stable)
	Standby Line of Credit	Short Term	8.80	ACUITE A1 (Reaffirmed)
	Bank Guarantee	Short Term	25.00	ACUITE A1 (Assigned)
	Bank Guarantee	Short Term	25.00	ACUITE A1 (Assigned)
	Proposed Bank Facility	Long Term	7.96	ACUITE A Stable (Upgraded from ACUITE A- Stable)
	Post Shipment Credit	Long Term	55.00	ACUITE A Stable (Upgraded from ACUITE A- Stable)

		Term Loan	Long Term	0.84	ACUITE A Stable (Upgraded from ACUITE A- Stable)
		Standby Line of Credit	Short Term	13.20	ACUITE A1 (Reaffirmed)
		Term Loan	Long Term	14.78	ACUITE A Stable (Upgraded from ACUITE A- Stable)
			Long		
	13 Jul 2020	Term Loan	Term	18.19	ACUITE A- Stable (Reaffirmed)
		Term Loan	Long Term	1.75	ACUITE A- Stable (Reaffirmed)
		Cash Credit	Long Term	170.30	ACUITE A- Stable (Reaffirmed)
		Proposed Bank Facility	Long Term	22.44	ACUITE A- Stable (Reaffirmed)
		Standby Line of Credit	Short Term	13.20	ACUITE A1 (Reaffirmed)
		Cash Credit	Long Term	55.00	ACUITE A- Stable (Reaffirmed)
		Cash Credit	Long Term	83.50	ACUITE A- Stable (Reaffirmed)
		Term Loan	Long Term	3.62	ACUITE A- Stable (Reaffirmed)
		Cash Credit	Long Term	50.00	ACUITE A- Stable (Reaffirmed)
		Standby Line of Credit	Short Term	8.80	ACUITE A1 (Reaffirmed)
		Cash Credit	Long Term	91.20	ACUITE A- Stable (Reaffirmed)
	04 Jun 2020	Term Loan	Long Term	3.76	ACUITE A- Stable (Reaffirmed)
		Term Loan	Long Term	3.38	ACUITE A- Stable (Reaffirmed)
		Standby Line of Credit	Short Term	13.20	ACUITE A1 (Reaffirmed)
		Cash Credit	Long Term	83.50	ACUITE A- Stable (Reaffirmed)
		Proposed Bank Facility	Long Term	48.76	ACUITE A- Stable (Reaffirmed)
		Cash Credit	Long Term	190.00	ACUITE A- Stable (Reaffirmed)
		Cash Credit	Long Term	55.00	ACUITE A- Stable (Reaffirmed)
		Term Loan	Long Term	20.40	ACUITE A- Stable (Reaffirmed)
		Standby Line of Credit	Short Term	8.80	ACUITE A1 (Reaffirmed)
		Cash Credit	Long Term	91.20	ACUITE A- Stable (Reaffirmed)
		Term Loan	Long Term	3.76	ACUITE A- Stable (Assigned)
		Cash Credit	Long Term	83.50	ACUITE A- Stable (Reaffirmed)
		Cash Credit	Long Term	190.00	ACUITE A- Stable (Reaffirmed)
		Standby Line of Credit	Short Term	4.40	ACUITE A1 (Withdrawn)

07 Mar 2019	Proposed Bank Facility	Long Term	38.76	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	23.78	ACUITE A- Stable (Reaffirmed)
	Standby Line of Credit	Short Term	8.80	ACUITE A1 (Reaffirmed)
	Term Loan	Long Term	4.71	ACUITE A- Stable (Withdrawn)
	Cash Credit	Long Term	91.20	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	65.00	ACUITE A- Stable (Reaffirmed)
	Standby Line of Credit	Short Term	13.20	ACUITE A1 (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE A1 Upgraded
HDFC Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE A1 Upgraded
Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	91.20	ACUITE A Stable Upgraded
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	170.30	ACUITE A Stable Upgraded
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	83.50	ACUITE A Stable Upgraded
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	50.00	ACUITE A Stable Upgraded
HDFC Bank Ltd	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	Simple	55.00	ACUITE A Stable Upgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	7.96	ACUITE A Stable Upgraded
Bank of India	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	8.80	ACUITE A1 Upgraded
Bank of Baroda	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	13.20	ACUITE A1 Upgraded
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	3.62	ACUITE A Stable Upgraded
Bank of India	Not Applicable	Term Loan	Sep 1 2017 12:00AM	8.50	Sep 1 2027 12:00AM	Simple	14.78	ACUITE A Stable Upgraded
Bank of Baroda	Not Applicable	Term Loan	Jan 1 2016 12:00AM	10.65	Jun 1 2021 12:00AM	Simple	0.84	ACUITE A Stable Upgraded

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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