Press Release

KESHAV GINNING AND PRESSING FACTORY

June 24, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 77.00 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB**' **(read as ACUITE triple B)** on the Rs. 77.00 crore bank facilities of KESHAV GINNING AND PRESSING FACTORY (KGPF). The outlook is **'Stable'**.

Established in the year 2000, KGPF is a partnership firm, engaged in cotton ginning and pressing activities. The firm was taken-over by the Manjeet Group in the year 2012 and is currently managed by Mr. Rameshwar Ramdayal Tawani & Mr. Gurucharan Singh Desa Singh Chabda and Mr. Karan Singh Rajpal. It has two owned units in Maharashtra (Beed and Parbhani) and four leased units within the same area. These units have a combined ginning capacity of 1165000 Quintals and ~60 per cent of utilization.

About the Group

Manjeet Cotton Private Limited (MCPL) is the flagship company of the Manjeet group of companies promoted by Mr. Bhupendra Rajpal, Mr. Rajendra Rajpal and Mr. Sanchit Rajpal. MCPL was incorporated in 2005 as a private limited company to consolidate the existing businesses of other group companies which were operational since 1982. It is engaged in cotton ginning, trading, export and extraction of cotton seed oil. MCPL has manufacturing units at 18 cities located in the states of Madhya Pradesh, Maharashtra, Karnataka, Telangana, Odisha and Rajasthan with an annual ginning capacity of 6500000 quintals.

Analytical Approach

Acuité has consolidated the business and financial risk profile of Manjeet Fibers Private Limited, Keshav Ginning and Pressing Factory and Man Cott Private Limited to arrive at the standalone rating. The consolidation is on account of common management, similarities in the line of business and presence of significant operational and business synergies. Together these companies have been referred to as the Manjeet Group. To arrive at the final rating, Acuité has also notched up the standalone rating by factoring in the strong operational and financial support extended by Manjeet Cotton Private Limited and the personal guarantees of the promoters of the group towards the bank facilities of the rated entities. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

- **Experienced management and established presence in the ginning industry**

  The group has been engaged in cotton ginning and other ancillary activities since 1982. The promoters of the group have been associated with the cotton industry for almost three decades. Extensive experience of the promoters in the industry has helped the group in establishing its presence in India. The group reported CAGR of ~22 per cent over the past three years through FY2019. Operating income stood at Rs. 747 crore in FY2019 (Prov.) against Rs. 695 crore in PY.

  MCPL, the flagship entity of the group, reported EBITDA of Rs. 101.96 crore against operating income of Rs. 3,284 crore in FY2018. The net worth of the company stood at Rs. 222.64 crore as on March 31, 2018. Further, the company has reported EBITDA of Rs. 90.87 crore against operating income of Rs. 2,704 crore for the eleven months period April to January 2019.

  Acuité believes that the group's established track record in the industry along with promoters' extensive experience has helped the companies in maintaining healthy relations with its customers and suppliers.

- **Proximity to raw materials**

The group's manufacturing facilities are located in the states of Maharashtra, Telangana and Rajasthan; which are amongst the major cotton producing regions in India. Hence, proximity to raw material has ensured steady supply of raw material at competitive rates. Further, the group has location advantage in terms of low logistic costs (both on the transportation and storage) and is eligible for various subsidies and incentives from the government.

- **Comfortable working capital cycle**

The group has comfortable working capital cycle marked by gross current assets (GCA) of 113 days in FY2018 against 105 days in FY2017. The inventory holding period stood at 44 days in FY2018 against 52 days in FY2017. Further, the collection period stood at 56 days in FY2018 against 37 days in FY2017. The group does not receive major credit from its suppliers (mandi regulations) which leads to a higher reliance on the external borrowings. The working capital borrowings generally remain fully utilised during the peak season and ~50 per cent during the balance part of the year.

Weaknesses

- **Moderate financial risk profile**

The financial risk profile of the group is marked by modest net worth, high gearing and moderate debt protection metrics. The net worth of the group stood at Rs.62.11 crore as on March 31, 2018 (which includes unsecured loans from promoters and relatives of Rs.19.16 crore treated as quasi equity) as compared to Rs.49.49 crore as on March 31, 2017. Acuité believes that the net worth of the group will remain in the range of Rs.70-100 crore over the near term backed by its healthy revenue growth and stable operating margins. The group has followed aggressive financial policy as reflected by its peak gearing of 2.58 times as on March 31, 2018. The total debt of Rs.160.10 crore comprises of Rs.21.06 crore of long term loans and Rs.139.04 crore of short term working capital borrowings. Going ahead, Acuité believes that the group will be able to maintain the gearing in the range of 1.80-2.10 times on account of healthy accretion of reserves over the years and absence of any major debt funded capex.

The interest coverage ratio stood at 1.88 times for FY2018 against 2.66 times for FY2017. The DSCR stood at 1.36 times for FY2018 against 1.83 times for FY2017. The net cash accruals for FY2018 stood comfortable at Rs.6.99 crore against the yearly debt obligations of Rs.2.28 crore. However, the Debt to EBITDA stood high at 7.94 times as on March 31, 2018. Acuité believes that the group's financial risk profile will continue to remain moderate on account of high reliance on external debt in the form of working capital borrowings.

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

The group operates in a highly fragmented cotton industry characterised by the presence of a large number of unorganised players, thereby impacting the group's bargaining power. 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 the bargaining power with customers, thereby impacting margins. Acuité believes that the group will be able to mitigate this risk to some extent on account of its promoters' experience and well established position in the market. Further, cotton being a seasonal crop and the production of the same being highly dependent upon monsoon, the group is always exposed to agro climatic risk.

Liquidity Position:

The Manjeet group has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The cash accruals of the group are estimated to remain around Rs.12.00 – 16.00 crore during 2019-21, while the repayment obligations are estimated to be around Rs.2.50 crore.

The group has comfortable working capital management marked by gross current asset (GCA) days of 113 in FY 2018. The cash credit limit of the group remains utilised at ~ 65-70 per cent during the last 6 months ending February 2019. The group had unencumbered cash and bank balance of Rs.9.80 crore as on March 31, 2018. The current ratio stood at 1.31 times as on March 31, 2018. Acuité believes that the liquidity of the group is likely to remain adequate over the near to medium term.

Outlook: Stable

Acuité believes that Manjeet Group will maintain a 'Stable' outlook over the medium term on the back of vast promoter experience and well established presence of the group in the cotton industry. The outlook may be revised to 'Positive' in case the group is able to generate healthy revenues while improving its profitability and maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of deterioration in its working capital cycle, thereby impacting its liquidity or further deterioration in its financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	747.57	695.09	512.70
EBITDA	Rs. Cr.	26.59	20.05	16.13
PAT	Rs. Cr.	9.73	5.11	8.11
EBITDA Margin	(%)	3.56	2.88	3.15
PAT Margin	(%)	1.30	0.73	1.58
ROCE	(%)	10.82	9.94	13.48
Total Debt/Tangible Net Worth	Times	2.19	2.58	1.94
PBDIT/Interest	Times	2.53	1.88	2.66
Total Debt/PBDIT	Times	5.89	7.94	4.77
Gross Current Assets (Days)	Days	115	113	105

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

None

Any other information

Not Applicable

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
- Consolidation Of Companies -https://www.acuite.in/view-rating-criteria-22.htm

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BBB / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	70.00	ACUITE BBB / Stable

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About Acuité Ratings & Research:
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