

Press Release
Keshav Ginning and Pressing Factory

May 07, 2021



Rating Reaffirmed & Assigned

Total Bank Facilities Rated*	Rs.77.00 Cr.
Long Term Rating	ACUITE BBB/ Outlook: Stable (Reaffirmed & Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) on the Rs.76.73 crore bank facilities and assigned the long term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) on the Rs.0.27 crore bank facilities of Keshav Ginning and Pressing Factory (KGPF). The outlook is '**Stable**'.

Rationale for rating reaffirmed and assigned

The rating reaffirmation and assigned is on account of long track record of operations, experienced promoters with over three decades in the cotton industry, moderate financial risk profile of the company. Further, the rating also factors in the strong support from its flagship company i.e. Manjeet Cotton Private Limited and its promoters. The rating, however, remains constrained on account of working capital intensive operations thus leading to high dependence of external borrowings followed by decline in operational performance in FY20.

The consolidated revenue declined to Rs.514.32 Cr. in FY20 as against Rs.731.61 Cr. in FY19 resulting in decline of around 30 percent on YoY basis majorly on account of increase in the MSP price of raw cotton against the prevailing domestic market value followed by the impact of covid-19 in the last quarter of FY20. However, the operating margin of the group improved to 4.11 per cent in FY20 as against 3.57 percent in FY19. Further, the group profit after tax declined to Rs.4.87 Cr. in FY20 as against Rs.7.88 Cr. in FY19. The higher MSP for raw cotton continued to impact the revenues of the group till Dec, 2020 and reported revenues of ~Rs.430 Cr. in 10MFY21. However, the market rates of raw cotton resurged from end of Jan 2021 and is expected to improve the revenues of the group in the medium term.

About the Company

Rajasthan based Keshav Ginning and Pressing Factory (KGPF) was incorporated in 2000 as a partnership firm by Mr. Rameshwar Ramdayal Tawani and Mr. Karan Singh Rajpal. The firm is engaged in cotton ginning and pressing activities. The firm currently has 5 ginning plants located in Maharashtra out of which 3 are owned and 2 are on lease with a total installed capacity of processing 16,46,600 Quintals per annum.

About the Group

The Manjeet Group (MG) belongs to the Rajpal family of Sendhwa (Madhya Pradesh) promoted by Mr. Bhupendra Rajpal, Mr. Rajendra Rajpal and Mr. Sanchit Rajpal which is into the cotton trading, ginning, pressing and other allied activities. The Manjeet Group of companies includes companies such as Manjeet Fibers Private Limited, Keshav Ginning and Pressing Factory and Man Cott Private Limited. Further, Manjeet Cotton Private Limited (MCPL) is the flagship company of the Manjeet Group which is involved in the cotton trading and ginning business. The company was incorporated in 2005 as a private limited company for trading and export operations, and to consolidate the operations of other group companies which were operational since 1982. MCPL is involved in the cotton trading business. The company also has interests in varied businesses like cotton ginning and oil extraction and also has wind mills.

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 the 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 Manjeet Cotton Private Limited and the personal guarantees extended by the promoters of the group towards the bank facilities of all the entities.

Extent of consolidation: Full

Key Rating Drivers

Strengths

- Established presence in the cotton ginning industry and well experienced promoters**

The Manjeet Group has been engaged in the cotton ginning, pressing and other ancillary activities since 1982. The promoters of the group have been associated with the cotton industry for more than three decades. The promoters of the group are well supported by experienced and qualified second line of management to run the day to day operations of the group. Apart from that, the flagship company of the group i.e. MCPL have been extending support whenever required by group and is expected to continue the same going ahead. The extensive experience of the promoters in the aforementioned industry has helped the group in establishing its presence across the country and also helped the group to establish and maintain long term relationship with its customers and suppliers over the years.

Acuité believes that the group will sustain its existing business profile on back of an established presence in the cotton ginning industry and experienced management in the medium term.

- Moderate financial risk profile**

The financial risk profile of the group is moderate marked by healthy net worth, moderate gearing, debt protection metrics and coverage indicators.

The tangible net worth of the group marginally increased to Rs.77.26 Cr. as on 31 March, 2020 as against Rs.73.75 Cr. same period last year. The net worth includes unsecured loans from promoters and relatives of Rs.19.44 Cr. in FY20 against Rs.18.74 Cr. in FY19 treated as quasi-equity. The gearing level of the group improved and remain moderate at 1.64 times as on 31 March, 2020 as against 1.83 times same period last year. The Interest Coverage Ratio (ICR) deteriorated marginally to 1.63 times in FY20 as against 1.88 times in FY19. Subsequently, the debt to EBITDA also increase to 5.80 times in FY20 as against 4.92 times in FY19. However, the total outside liabilities to total net worth (TOL/TNW) improved and stood at 1.76 times in FY20 against 2.07 times in FY19. Currently, there are no major plans for capital expansion in the group companies.

Acuité believes that the financial risk profile of the group will continue to remain moderate on account of moderate profitability and healthy net worth.

- Proximity to raw materials**

The group's manufacturing facilities are located in the states of Madhya Pradesh, Maharashtra, Telangana and Rajasthan; which are amongst the major cotton producing regions in the country. Hence, proximity to major raw material required by the group ensured steady supply of the same 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.

Weaknesses

- Working capital intensive nature of operations**

The operations of the group are working capital intensive as evident from increase in Gross Current asset days to 134 days for FY20 as against 99 days for FY19. This deterioration was majorly on account of increase in both inventory and receivables due to high year end balances owing to covid-19 induced lockdown. The receivable period increased to 49 days in FY20 as against 37 days in FY19. The inventory holding period has also increased to 69 days in FY20 as against 54 days in FY19.

Subsequently, the group doesn't not receive major credit period from its suppliers due to mandi regulations which leads to high reliance of external borrowings. Further, the average bank limit utilization during peak season remains above 90 percent whereas the same remains at around 70 percent during non – peak season. Further the current ratio of the group stood at 1.45 times as on 31 March 2020 as against 1.38 times same period last year.

Acuité expects the working capital operations of the group to remain intensive on account of the level of inventory to be maintained and the credit given to its customers.

- Highly fragmented and regulated industry with intense competition**

The group operates in a highly fragmented and regulated cotton industry characterized by the presence

of a large number of unorganised players, thereby impacting the group's bargaining power. The prices of raw cotton are regulated by the government through MSP (Minimum Support Price) mechanism which impact the procurement of raw cotton required by the domestic ginning companies. 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.

Rating Sensitivities

- Improvement in revenues while maintaining profitability margins
- Deterioration in working capital management leading to stretched liquidity
- Substantial decline in profitability levels thereby impacting group's debt coverage indicators

Material Covenants

None

Liquidity position: Adequate

The liquidity position of the group remains adequate reflected by adequate net cash accruals against maturing debt obligations. The net cash accruals of the group stood at Rs.7.78 Cr. in FY20 against debt obligations of Rs.11.33 Cr. for the same period. However, the group's working capital operations are intensive marked by Gross Current Asset (GCA) days of 134 days for FY20. The fund based working capital limit of the group remained utilized around 80 percent over the last six months ended March, 2021. The group maintains unencumbered cash and bank balance of Rs.4.72 Cr. and the current ratio stood at 1.45 times as on 31 March, 2020. Acuité believes that the liquidity of the group is likely to remain adequate over the medium term on account of healthy cash accruals to its maturing debt obligation.

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	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	514.32	731.61
PAT	Rs. Cr.	4.87	7.88
PAT Margin	(%)	0.95	1.08
Total Debt/Tangible Net Worth	Times	1.64	1.83
PBDIT/Interest	Times	1.63	1.88

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

Not Applicable

Any other information

None

Applicable Criteria

- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.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
24-June-2019	Term Loans	Long Term	7.00	ACUITE BBB / Stable (Assigned)
	Cash Credit	Long Term	70.00	ACUITE BBB / 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
Term Loans	Dec, 2017	10.30	Mar, 2025	6.73	ACUITE BBB / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	70.00	ACUITE BBB / Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.27	ACUITE BBB / Stable (Assigned)

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About Acuité Ratings & Research:

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