

Press Release

Keshav Ginning and Pressing Factory

August 05, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	77.00	ACUITE BBB Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	77.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs.77.00 Cr. bank facilities of Keshav Ginning and Pressing Factory (KGPF). The outlook is '**Stable**'.

Rationale for Rating Reaffirmation

The rating has been reaffirmed basis the improvement in operating and financial performance of Manjeet Group since last review. The Group's operating income improved to Rs.668.92 Cr in FY22(Prov.) as against Rs.500.44 Cr in FY21 and Rs.514.32 Cr in FY20. The Group's financial risk profile continues to remain above average marked by improved gearing and moderate debt protection metrics. The Group's overall gearing improved to 1.71 times as on March 31, 2022(Prov.) as against 1.82 times as on March 31, 2021 and 1.64 times as on March 31, 2020. Further, the rating also factors in the strong support from the Group's flagship company i.e. Manjeet Cotton Private Limited and its promoters. The rating, however, remains constrained on account of working capital intensive operations of the Group.

About the Company

Rajasthan based Keshav Ginning and Pressing Factory (KGPF) was incorporated as a partnership firm in 2000 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 16,46,600 Quintals per annum. The firm has recently expanded its manufacturing capacity by installing Oil Extraction unit at Village Malewadi, Maharashtra.

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. It is engaged into 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 is 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 established 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 and comfortable coverage indicators. The tangible net worth of the group stood at Rs. 94.31 Cr. as on March 31, 2022(Prov.) as against Rs.83.29 Cr. as on March 31, 2021 and Rs. 77.18 Cr as on March 31,2020. The improvement in net-worth is primarily due to accretion of profits to reserves. The total debt of the Group stood at Rs.161.68 Cr as on March 31, 2022 which included Rs.32.64 Cr of long term borrowings and Rs. 129.04 Cr of short term borrowings. The unsecured loan from promoters and relatives which stood at Rs. 17.52 Cr as on March 31, 2022 (Prov.) is considered as quasi equity. The gearing level of the group stood at 1.71 times as on March 31, 2022(Prov.) as against 1.82 times as on March 31,2021 and 1.64 times as on March 31,2020. The TOL/TNW stood at 1.81 times as on March 31, 2022(Prov.) as against 1.91 times as on March 31,2021 and 1.77 times as on March 31,2020. The Interest Coverage Ratio (ICR) improved to 2.54 times in FY22(Prov.) as against 1.68 times in FY21 and 1.63 times in FY20. The NCA/TD improved to 0.10 times in FY22(Prov.) as against 0.05 times in FY21 and 0.06 times in FY20.

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

• 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 marked by Gross Current Asset (GCA) days of 125 days as on March 31, 2022(Prov.) as against 155 days as on March 31, 2021 and 134 days as on March 31, 2020. The GCA days are driven by inventory days and debtor days. The inventory days stood at 87 days as on March 31, 2022(Prov.) as against 93 days as on March 31, 2021 and 69 days as on March 31, 2020. The debtor days stood at 30 days as on March 31, 2022(Prov.) as against 47 days as on March 31, 2021 and 49 days as on March 31, 2020.

The group does not receive major credit period from its suppliers due to mandi regulations which leads to high reliance of external borrowings. The average utilization of the fund based bank limits of the group stood at approx. 80-85 percent for last six months period ended June' 22.

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

- Improving scale of operations while maintaining profitability margins
- Elongation of working capital cycle leading to stretched liquidity

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. 16.10 Cr. in FY22(Prov.) against debt obligations of Rs.1.89 Cr. for the same period. Going forward, the group is expected to generate net cash accruals of Rs. 16-17 Cr. in FY23-24 as against maturing debt obligations of Rs. 5-7 Cr. for the same period. The average utilization of the fund based bank limits of the group ranged between 80-85 percent for six months period ended June' 22. The unencumbered cash and bank balance stood at Rs. 4.91 crore as on

March 31, 2022(Prov.).The current ratio stood at 1.63 times as on March 31, 2022(Prov.). 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.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	500.44	514.32
PAT	Rs. Cr.	4.81	4.87
PAT Margin	(%)	0.96	0.95
Total Debt/Tangible Net Worth	Times	1.82	1.64
PBDIT/Interest	Times	1.68	1.63

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>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
07 May 2021	Term Loan	Long Term	6.73	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	70.00	ACUITE BBB Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	0.27	ACUITE BBB Stable (Assigned)
24 Jun 2019	Cash Credit	Long Term	70.00	ACUITE BBB Stable (Assigned)
	Term Loan	Long Term	7.00	ACUITE BBB Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	70.00	ACUITE BBB Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.27	ACUITE BBB Stable Reaffirmed
Bank of Baroda	Not Applicable	Term Loan	01-12-2017	Not available	01-03-2025	6.73	ACUITE BBB Stable Reaffirmed

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About Acuité Ratings & Research

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