

Press Release

Jayalaxmi Enterprises

July 31, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 10.50 Cr.
Long Term Rating	SMERA BB / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB**' (read as **SMERA BB**) on the Rs. 10.50 crore bank facilities of Jayalaxmi Enterprises. The outlook is '**Stable**'.

Jayalaxmi Enterprises (JE) was established in 1997 by Mr. A Vittalaraya Hegde, Mrs Veena V Hegde and Mr. Srinivas Hegde. The firm is engaged in the manufacturing and trading of cashew kernels and has installed capacity of 10000 kg per day. The manufacturing facility is located at Udupi, Karnataka.

Key Rating Drivers

Strengths

- **Experienced management**

The business is led by Mr. A Vittalaraya Hegde, Mrs Veena V Hegde and Mr. Srinivas Hegde who possess experience of almost two decades in the food industry.

- **Average financial risk profile**

The firm has average financial risk profile marked by moderate net worth of Rs 5.61 crore in FY2017 (Provisional), an increase from Rs.5.10 crore in FY2016, mainly due to retention of current year profit. The debt-equity ratio has been moderate at 1.40 times in FY2017 (Provisional), an increase from 0.88 times in FY2016. The deterioration in gearing has been mainly on account of increase in short term debt and unsecured loans of promoters, which is not subordinated to bank debt. The interest coverage ratio has been comfortable at 2.09 times and debt service coverage ratio at 1.79 times in FY2017 (Provisional). The NCA/TD stood at a low of 0.05 times in FY2017 (Provisional).

- **Significant revenue growth**

The revenue improved significantly with CAGR of 58.75 per cent in the last three years i.e. from Rs.22.19 crore in FY2015 to Rs.87.66 crore in FY2017 (Provisional), mainly on account of increase in geographical reach. The revenue increased by 42 per cent i.e. from Rs.62.16 crore in FY2016 to Rs.87.66 crore in FY2017 (Provisional).

Weaknesses

- **Declining trend in profitability margin**

The operating margin declined to 1.23 per cent in FY2017 (Provisional) from 1.73 per cent in FY2016, mainly due to increase in prices of raw material. The net profit margin also declined to 0.41 per cent in FY2017 (Provisional) as against of 0.64 per cent in FY2016, on account of increase in interest cost backed by increase in short term debt.

- **Presence in competitive and fragmented industry**

The firm operates in a highly competitive cashew processing industry with intense competition from

several unorganised players which limits the bargaining power of the firm.

Analytical Approach

SMERA has considered standalone business and financial risk profile of JE.

Outlook: Stable

SMERA believes that JE will maintain a stable outlook in the medium term on account of its experienced management and above average financial risk profile. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected growth in revenues and profitability while improving working capital management. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected growth in revenues and profitability, or deterioration in the financial risk profile.

About the Rated Entity - Key Financials

For FY2016-17 (Provisional), JE reported profit after tax (PAT) of Rs 0.36 crore on total operating income of Rs.87.66 crore, compared with PAT of Rs.0.64 crore on total operating income of Rs.62.16 crore in FY2015-16. The tangible net worth stood at a moderate Rs.5.61 crore in FY2017 (Provisional).

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

NA

Any other information

NA

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>

Note on complexity levels of the rated instrument

<https://www.smera.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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.50	SMERA BB / Stable

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