

Press Release

Jayalaxmi Enterprises

August 21, 2019

Rating Downgraded



Total Bank Facilities Rated*	Rs. 10.50 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable (Downgraded from ACUITE BB /Stable)

* Refer Annexure for details

Rating Rationale

Acuite has downgraded long-term rating to '**ACUITE BB-**' (read as **ACUITE double B minus**) from **ACUITE BB** (read as **ACUITE double B**) on the Rs. 10.50 crore bank facilities of JAYALAXMI ENTERPRISES. The outlook is 'Stable'.

The downgrade of the rating reflects sharp decline in the operating income, restrictions on imports and inadequate availability of raw cashew nut (RCN) and price competitiveness. The firm's revenues have significantly declined to Rs.49.5 crores (provisional) in FY2019 against Rs.94.0 crores in FY2018. However, the rating factors in experienced management, comfortable working capital management and financial risk profile.

Jayalaxmi Enterprises (JE) was established in the year 1997 by Mr. A. Vittalaraya Hegde, Mrs. Veena V. Hegde and Mr. Srinivas Hegde. The firm is engaged in processing and trading of cashew kernels with current installed capacity of 2000-2500 MT annually. The manufacturing facility is located in Udupi district of Karnataka.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of Jayalaxmi Enterprises to arrive at the rating.

Key Rating Drivers

Strengths

Experienced management

JE is a partnership firm engaged in processing and trading of cashew kernels. The business was established in 1997. Currently, the business is run by Mr. A. Vittalaraya Hegde, Mrs. Veena V. Hegde and Mr. Srinivas Hegde, who are having an experience of over two decades in cashew industry.

Comfortable working capital management

The working capital management of the firm has remained comfortable. The gross current asset (GCA) days of the firm stood at 78 on 31 March, 2019 (provisional), as against 48 days in the previous year. This is mainly on account of increase in the inventory days to 52 days as on 31 March, 2019 (provisional) from 20 days in the previous year. The debtor days of the firm stood at 16 days on 31 March, 2019 (provisional), as against 19 days in the previous year. Its bank lines have been utilised at about 95 per cent over past four months through July, 2019. Acuite believes that the firm's operations continue to be moderately working capital intensive with a mix of revenues from both exports and domestic of about 60:40.

• Comfortable financial risk profile

The firm's financial risk profile is characterized by healthy gearing and total outside liabilities to tangible network (TOL/TNW), while constrained by below-average debt protection metrics. The capital structure of firm is healthy marked by gearing and TOL/TNW of 0.20 times and 0.22 times on 31 March, 2019 (provisional), as against 0.86 times and 1.01 times, respectively, in FY2018. The improvement is mainly due to capital infusion and accretions, while reducing the dependency on external debt as the volumes have gone down; its network improved to Rs.9.27 crores in FY2019 from Rs.6.5 crores in FY2018. The debt protection metrics of net cash accruals to total debt (NCA/TD) and the interest coverage ratio (ICR) of the firm are below-average, which stood at 0.09 times and 1.28 times, respectively on 31 March, 2019 (provisional) as against 0.08 times and 2.08 times in the previous year respectively. The deterioration in the

ICR is due to increased interest cost on account of higher utilization of the cash credit facilities. The total debt of Rs. 1.81 crore consists of short-term debt to the tune of Rs.1.35 crore and unsecured loans to the tune of Rs.0.46 crore. The firm has planned a capex for purchase of two machines on account of capacity expansion, which is to be funded by further infusion of capital by the partners. Acuite believes that with modest accruals and no significant repayment obligations, the financial risk profile is expected to be at comfortable levels over the medium term.

Weaknesses

• Low profitability margins

Jayalaxmi Enterprises operates at thin profitability margins, even though there has been a steady growth in its margins; which is the very nature of the cashew processing industry, on account of high raw material costs. The operating margin of the firm stood at 2.30 per cent in FY2019 (provisional), as against 1.48 per cent in FY2018.

• 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. Moreover, cheaper supplies to global markets from Vietnam and plans of African suppliers of raw cashew nuts to enter into the processing of the same are major threats.

Liquidity Position

Jayalaxmi Enterprises has stretched liquidity marked by almost full utilisation of its cash credit facilities and modest accruals. The net cash accruals of the firm have been in the range of Rs.0.41-0.16 crore during the period under study, and is expected to be around Rs. 0.75 crore in the current financial year. The firm maintains moderate inventory levels with overall GCA of about 78 days; its bank lines are utilised fully due to modest network. Acuite believes that with an expected scaling up of its operations with a modest capex for capacity enhancement, the liquidity is expected to be at stretched levels over the medium term.

Outlook: Stable

Acuite believes the outlook on Jayalaxmi Enterprises will remain 'Stable' over the medium term on account of the experience of its management. The outlook maybe revised to 'Positive' in case of significant improvement in its revenues, while maintaining its profitability and capital structure. Conversely, the outlook maybe revised to 'Negative' in case of any sharp decline in the revenues or profitability or stretch in its working capital management leading to deterioration of its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	49.56	94.02	87.66
EBITDA	Rs. Cr.	1.14	1.39	1.08
PAT	Rs. Cr.	0.16	0.47	0.36
EBITDA Margin	(%)	2.53	1.61	1.23
PAT Margin	(%)	0.32	0.50	0.41
ROCE	(%)	8.97	10.89	9.05
Total Debt/Tangible Net Worth	Times	0.20	0.86	1.40
PBDIT/Interest	Times	1.42	2.26	2.09
Total Debt/PBDIT	Times	1.58	3.67	7.20
Gross Current Assets (Days)	Days	78	48	69

Status of non-cooperation with previous CRA

ICRA, vide its press release dated July 29, 2019, had denoted the rating of JAYALAXMI ENTERPRISES as ICRA B+/Stable/A4 (ISSUER NOT COOPERATING).

Any other information

Not Applicable

Applicable Criteria

- Trading entities: <https://www.acuite.in/view-rating-criteria-6.htm>
- Application of Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-17.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
18-Sep-2018	Cash Credit	Long Term	10.50	ACUITE BB / Stable (Reaffirmed)
31-July-2017	Cash Credit	Long Term	10.50	ACUITE BB / 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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.50	ACUITE BB- / Stable (Downgraded from ACUITE BB / Stable)

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About Acuité Ratings & Research:

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