

Press Release

Jayalaxmi Enterprises

October 30, 2020

Rating Upgraded



Total Bank Facilities Rated*	Rs.24.50 Cr. (Enhanced from Rs.10.50 Cr.)
Long Term Rating	ACUITE BB / Outlook: Stable (Upgraded from ACUITE BB- / Stable)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BB**' (read as **ACUITE double B**) from '**ACUITE BB-**' (read as **ACUITE double B Minus**) on the Rs.24.50 crore bank facilities of Jayalaxmi Enterprises (JE). The outlook is '**Stable**'.

The rating upgrade is driven by improvement in the business & financial risk profile and improvement in the working capital management.

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 the current processing capacity of 7000 metric tonnes and trading volume of another 3000 metric tonnes, annually. The manufacturing facility is located in Udupi district of Karnataka.

Analytical Approach

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

Key Rating Drivers

Strengths

• Experienced promoters and established track record of operations

JE is a partnership firm engaged in processing and trading of cashew kernels. The business was established in 1997. Currently, the firm 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 the cashew industry.

Acuite believes that the firm's established track record of operations, long-standing relations with its customer and supplier base will continue to support its business risk profile over near to medium term.

• Efficient working capital management

The working capital management of the firm has remained efficient marked by gross current asset (GCA) days of 45 days as on March 31, 2020 (Provisional) as against 77 days as on March 31, 2019. The improvement in GCA days is due to improvement in the Inventory which stood at 26 days as on March 31, 2020 (Provisional) as against 52 days as on March 31, 2019. The average inventory stood between 20-30 days during the 2017-20 (Provisional) period with an exception in 2019 at 52 days.

The debtors of the firm stood at 11 days as on March 31, 2020 (Provisional) as against 16 days as on March 31, 2019. The fund based working capital facilities remain utilized at ~66 percent during the 6 month period ended in September, 2020.

Acuite believes that the firm's working capital position is expected to remain comfortable in near to medium term.

• Moderate financial risk profile

The firm's financial risk profile is moderate marked by healthy gearing, improvement in debt protection metrics while being constrained by modest net worth.

The capital structure of the firm is healthy marked by Gearing (Debt-to-Equity) of 0.22 times as in March 31, 2020 as against 0.20 times as in March 31, 2019 and TOL/TNW (Total outside Liabilities to Total Net worth) of 0.28 times as on March 31, 2020 (Provisional) as against 0.23 times as on March 31, 2019. The total debt consists only of working capital facilities availed by the firm. The firm has a modest net worth of Rs.10.83 crore as on March 31, 2020 (Provisional) as against Rs.9.23 crore as on March 31, 2019.

The debt protection metrics to have improved marked by NCA/TD (Net cash accrual to total debt) at 0.86 times as on March 31, 2020 (Provisional) as against 0.09 times as on March 31, 2019. The ICR (Interest Coverage Ratio) stood at 5.18 times in FY2020 (Provisional) as against 1.33 times in FY2019 and the DSCR (Debt-Service Coverage Ratio) stood at 3.89 times in FY2020 (Provisional) as against 1.22 times in FY2019.

The firm has planned a capex for capacity expansion, which is to be partly funded by infusion of capital by the partners and a term loan of Rs.0.15 crore.

Acuité believes that with modest accruals and minor repayment obligations, the financial risk profile is expected to be at comfortable levels over the medium term.

Weaknesses

- **Low profitability margins**

JE 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 3.73 per cent in FY2020 (Provisional) as against 2.28 per cent in FY2019.

- **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 cashews are some of the major threats.

- **Concentration risk**

The firm has highly vulnerable to the fluctuation of global prices of cashews as reflected in the fluctuation in raw material cost and the revenues observed in the last 3 financial years. To overcome the overdependence on cashews the firm has started trading and processing of almonds in the current financial year, however, this is expected to contribute <5 percent towards the revenues in FY2021 and have insignificant impact to overcome the extreme concentration at the same time the firm earns 85 percent of the revenue from the domestic market and 15 percent of the revenue from the international market.

Liquidity position: Adequate

JE has adequate liquidity marked by adequate net cash accruals and nil maturing debt obligations. The firm generated cash accruals of Rs.2.04 crore for FY2020 (Provisional) and Rs.0.17 crore for FY2019, while there have been no maturities during the same period. The cash accruals of the firm are estimated to remain at around Rs.4.00-Rs.6.00 crore during 2021-23. The firm maintains unencumbered cash and bank balances of Rs.0.14 crore as on March 31, 2020 (Provisional). The current ratio of the firm stood healthy at 3.98 times as on March 31, 2020 (Provisional) declining from 6.51 times as on March 31, 2019. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of moderate cash accrual while having moderate maturing debt obligations.

Rating Sensitivities

- Improvement in revenues while maintaining profitability margins.
- Deterioration in the working capital cycle leading to stress on the liquidity position.
- Regulatory challenges faced in the domestic market and from the importing countries.
- Increase in demand from other importing countries leading to increase in prices of raw cashews globally, thus impacting the revenue.

Material Covenants

None

Outlook: Stable

Acuité believes that JE will maintain a 'Stable' outlook in the near to medium term on account of its experienced management and established track record of operations. The outlook may be revised to 'Positive' if the firm registers higher-than-expected growth in revenues, profitability margins and net cash accruals while maintaining/improving its debt protection metrics and financial risk profile. The outlook may be revised to 'Negative' in case the firm registers substantial decline in revenues or profitability margins or if the financial risk profile deteriorates due to higher than expected working capital requirements resulting in deterioration of the capital structure.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	96.74	49.57
PAT	Rs. Cr.	1.70	0.06
PAT Margin	(%)	1.76	0.12
Total Debt/Tangible Net Worth	Times	0.22	0.20
PBDIT/Interest	Times	5.18	1.33

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>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- 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 (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
21-Aug-2019	Cash Credit	Long Term	10.50	ACUITE BB-/ Stable (Downgraded from ACUITE BB / Stable)
18-Sep-2018	Cash Credit	Long Term	10.50	ACUITE BB / Stable (Reaffirmed)
31-Jul-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	7.65%	Not Applicable	24.50 (Enhanced from 10.50)	ACUITE BB / Stable (Upgraded from ACUITE BB-/ Stable)

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About Acuité Ratings & Research:

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