

Press Release

Jayalaxmi Enterprises

January 28, 2022



Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	24.50	ACUITE BB+ Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	24.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has upgraded the long term-rating to 'ACUITE BB+' (read as ACUITE Double B plus) from 'ACUITE BB' (read as ACUITE Double B) on the Rs.24.50 Cr bank facilities of Jayalaxmi Enterprises (JE). The outlook is 'Stable'.

Rationale for Rating Upgrade

The upgrade in the rating factors in the significant improvement in the operating performance marked by an increase in the scale of operations as well as profitability in FY21 and 9MFY22. The rating also factors in the established track record of operations with experienced promoters, efficient working capital management, and moderate financial risk profile. The rating, however, continues to be constrained by low profit margins, exposure to competitive pressures, and product concentration risk coupled with susceptibility to volatile raw material prices.

JE's ability to maintain its scale of operations and working capital efficiency will remain key rating monitorable.

About the Firm

Jayalaxmi Enterprises (JE) was established in the year of 1997 by Mr. A. Hegde, Mrs. Veena Hegde and Mr. Srinivas Hegde. The firm is engaged in processing & trading of raw cashew nuts and cashew kernels with current installed capacity of 7000 MT and does trading of 2500-3000 MT annually. The manufacturing facility is located in Udupi, district of Karnataka.

Analytical Approach

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

Key Rating Drivers

Strengths

Experienced promoters and established track record of operations

JE is a partnership firm engaged in processing & trading of raw cashew nuts and cashew kernels. The business was established in 1997. Currently, the firm is run by Mr. A. Hegde, Mrs. Veena Hegde and Mr. Srinivas Hegde, who possess an experience of over 2 decades in the cashew nuts industry.

Acuité 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

JE's working operations are efficiently managed as reflected in the working capital cycle and gross current assets days of 24 days and 35 days respectively in FY21 (Prov.) as against 33 days and 45 days respectively in FY20. The inventory holding stood low at 13 days in FY21 (Prov.) as against 26 days in FY20, whereas the collection period also stood low at 11 days in FY21 (Prov.) and FY20. This has also reduced JE's dependence on bank borrowings for funding its working capital requirements, which stood low at 39% for last 6 months ending December 2021.

Moderate financial risk profile albeit comfortable coverage indicators.

The financial risk profile of JE stood moderate with modest tangible net-worth base although comfortable capital structure and debt coverage indicators. The tangible net-worth base stood modest at Rs.11.49 Cr as on March 31, 2021 (Prov.) as against Rs.10.63 Cr as on March 31, 2020. The capital structure of the firm stood comfortable with an overall gearing of 0.82 times as on March 31, 2021 (Prov.) as against 0.22 times as on March 31, 2020, given the higher reliance on own funds to fund the working capital requirements. Moreover, the TOL/TNW also stood comfortable at 0.86 times as on March 31, 2021 (Prov.) as against 0.31 times as on March 31, 2020. Given this, coupled with moderate profitability, the debt coverage indicators also stood comfortable with the interest coverage and DSCR of 4.15 times and 3.15 times respectively in FY21 (Prov.) as against 5.03 times and 3.74 times respectively in FY20.

Improving scale of operations albeit modest profitability

JE's revenue improved to Rs.158.00 Cr in FY21 (Prov.) from Rs.97.58 Cr in FY20. The increase in FY21 (Prov.) over FY20 was owing to increase in revenues from cashew kernels, since the firm tied up with a few job-workers to add a new stream of revenue, coupled with increase in revenues from raw cashew nuts on the back of improved market sentiment. Further, during 9MFY22, the firm achieved net sales worth Rs.224.69 Cr, thereby surpassing the whole-year net sales achieved in FY21 (Prov.).

However, JE's operating margins deteriorated to 3.05% in FY21 (Prov.) from 3.44% in FY20. This deterioration was primarily on account of increase in revenue from job-work which is a low-margin business. The PAT margin also deteriorated from 1.53% in FY20 to 1.31% in FY21 (Prov.), whereas the same continues to remain low.

JE's ability to maintain its scale of operations and profitability will continue to remain a key rating sensitivity.

Weaknesses

Product concentration risk coupled with susceptibility of profit margins to volatile raw material prices

JE derives more than 95% of its revenues from processing & trading of raw cashew nuts and cashew kernels, which implies significant product concentration risk. To mitigate the said risk, the firm has also commenced trading in almonds, which, however, comprises less than 5% of the annual revenues in FY21 (Prov.). Moreover, the profit margins are highly susceptible to volatile prices of raw cashew nuts, which is evident from the fluctuating proportionate material consumption costs over the last 3 years.

Presence in highly competitive & fragmented industry

JE operates in a highly competitive & fragmented industry with a number of small-sized & medium-sized players engaged in the business of processing & trading of raw cashew nuts. Moreover, presence of various overseas buyers intensifies the already prevailing competition in the market. This limits the bargaining power of the firm, which is evidently reflected in the fluctuating profit margins over the last 3 years.

Partnership nature of constitution

JE is exposed to inherent risk of partners' capital being withdrawn at the time of personal contingency. Due to the partnership nature of constitution, it has restricted access to

external borrowing where net-worth as well as credit worthiness of the partners are the key factors affecting credit decision of lenders.

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

Liquidity Position: Adequate

The liquidity profile of JE is adequate marked by moderate net cash accruals, efficiently managed working capital operations, and high unutilized working capital limits. The firm's working capital cycle is efficiently managed as reflected in the gross current assets days and working capital cycle of 35 days and 24 days respectively in FY21 (Prov.) as against 45 days and 33 days respectively in FY20. This has reduced JE's dependence on bank borrowings for funding its working capital requirements, reflected in the low average fund-based working capital utilization in the last 6 months ended December 2021. Further, the firm generated moderate net cash accruals worth Rs.1.87 Cr and Rs.2.52 Cr in FY20 and FY21 (Prov.) respectively as against no debt repayment obligations in those respective years. The firm is expected to generate net cash accruals in the range of Rs.4-5 Cr over FY22-FY23, as against moderate debt repayment obligations worth Rs.0.40-1 Cr over the same period.

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 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.

Key Financials

Particulars	Unit	FY 21 (Provisional)	FY 20 (Actual)
Operating Income	Rs. Cr.	158.00	97.58
PAT	Rs. Cr.	2.08	1.50
PAT Margin	(%)	1.31	1.53
Total Debt/Tangible Net Worth	Times	0.82	0.22
PBDIT/Interest	Times	4.15	5.03

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

ICRA B+/Stable/A4; ISSUER NOT COOPERATING as per its press release dated December 15, 2021.

Any other information

Not Applicable

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
30 Oct 2020	Cash Credit	Long Term	24.50	ACUITE BB Stable (Upgraded from ACUITE BB- Stable)
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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	24.50	ACUITE BB+ Stable Upgraded (from ACUITE BB)

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About Acuité Ratings & Research

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