

Press Release

JSK Marketing Limited

24 January, 2018



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs. 285.00 Cr.
Long Term Rating	SMERA A- / Outlook: Stable
Short Term Rating	SMERA A2+

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the long-term rating of '**SMERA A-/Stable** (read as SMERA A minus) and short term rating of **SMERA A2+ (read as SMERA A two plus)** on the Rs. 240.00 crore bank facilities.

Further, SMERA has assigned the long term rating of **SMERA A-/Stable (read as SMERA A minus)** on the Rs. 45.00 crore bank facilities of JSK Marketing Limited (JSK Marketing). The outlook is '**Stable**'.

The rating draws comfort from the experienced management and comfortable financial risk profile. However, the rating is constrained by the working capital intensive operations and intense competition in the industry.

JSK Marketing, a Mumbai-based company (the erstwhile JSK Marketing Private Limited), was incorporated in 1985. The company is promoted by Mr. Jiwarajka and family and headed by Mr. Kunal Jiwarajka. The company has three broad revenue segments, viz - it is a sole distributor in the western region for Nippo products, is an ecommerce partner and registered platinum grade seller of Amazon India and has a well-established distribution network for offline sale of electronics.

Key Rating Drivers

Strengths

Experienced management

JSK Marketing commenced operations in 1985. The company is part of the Jiwarajka group of companies and is engaged in the distribution of FMCG products (batteries, shoes, torches, and electronics to name a few) for the past three decades. SMERA believes that JSK Marketing will continue to benefit from its management's extensive track record and established distribution channels.

Diverse revenue streams

JSK Marketing has three broad revenue segments, viz - it is the sole distributor in the western region for Nippo products. It is an ecommerce partner and registered platinum grade seller of Amazon India. Additionally, it has a distribution network for offline sale of electronics. In FY2017, the company registered around 75 per cent growth in revenue over the previous year. Revenue stood at Rs.608.45 crore in FY2017 as against Rs. 347.60 crore in FY2016. Around 30 percent of the revenue mix in FY2017 was generated from Nippo products (previous year: 46 per cent), 39 per cent by way of sales through Amazon portal (previous year: 40 per cent) and 31 per cent through offline sale of electronic goods (previous year: 14 per cent). The diverse revenue streams along with varied product categories insulate the company's business risk profile.

The company reported year-on-year improvement in operating margins. The operating (EBITDA) margin improved to 8.59 per cent in FY2017 from 6.61 per cent in FY2016. The net profitability (PAT) margin improved to 3.65 per cent in FY2017 from 2.75 per cent in FY2016.

SMERA believes that JSK Marketing will continue to grow on the back of its ability to scale up operations on the basis of its established distribution channels, relations with suppliers and expansion plans by tying up with other ecommerce giants.

Comfortable financial risk profile

JSK Marketing's financial risk profile stands comfortable marked by net worth of Rs.97.34 crore as on 31 March, 2017 as compared to Rs.55.39 crore as on 31 March, 2016. The increase is attributed to rise in unsecured loans treated as quasi equity to Rs. 44.91 crore as on 31 March, 2017 as compared to Rs.25.49 crore in the previous year along with accretion of profits. The gearing (debt-equity) stood at a moderate 1.46x times as on 31 March, 2017 compared to 0.75 times as on 31 March, 2016. The total outstanding liabilities to total net worth (TOL/TNW) stood at 2.45 times as on 31 March, 2017 as against 1.63 times as on 31 March 2016. The total debt of Rs. 142.17 crore as on 31 March, 2017 consists of working capital facility of Rs.132.99 crore, loans from NBFCs and vehicle loans from banks. The Interest Coverage Ratio (ICR) stood at 2.78 times for FY2017 as against 2.96 times for FY2016.

SMERA believes that JSK Marketing's financial risk profile will continue to remain comfortable backed by healthy net worth and steady cash accruals.

Weaknesses

Working capital intensive operations

The company has high working capital requirements reflected in the high Gross Current Assets (GCA) of 192 days (previous year: 143 days) in FY2017. This was on account of high inventory storage of ~139 days in FY2017 as against 82 days in FY2016 leading to higher working capital requirements. The debtor days stood at ~54 in FY2017 as against 49 in FY2016. The company gets credit of 70 to 80 days from suppliers, which partially eases the working capital requirements. The average working capital limit utilisation of JSK Marketing stood at ~95 per cent in the six months ended October 2017. SMERA believes that the working capital requirements will remain high in the medium term due to its nature of business. Thus, efficient management of working capital will remain crucial for the maintenance of a stable credit risk profile.

Highly competitive industry

JSK Marketing operates in a highly competitive and fragmented industry. E-commerce portals face threat of larger customer acquisition by other portals such as Flipkart, Snapdeal, Ebay, etc. along with brick and mortar retailers. Apart from this, the company faces competition from sellers registered with Amazon India. JSK Marketing's platinum membership with Amazon India entitles the company to privileges not availed of by regular vendors. The revenues and margins from the ecommerce segment will be influenced by Amazon India's policies regarding margins to vendors. Any change in Amazon's policies pertaining to vendor-margins are likely to impact the performance of the company.

Analytical Approach

SMERA has considered the standalone financial and business risk profile of the company.

Outlook: Stable

SMERA believes that JSK Marketing will maintain a stable outlook over the medium term on account of its experienced management and diversified business profile. The outlook may be revised to 'Positive' in case the company registers significantly higher-than-expected growth in revenue and accruals along with improvement in the financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of significant elongation in the working capital cycle or if the company registers lower-than-expected growth in revenue and profitability or deterioration in the financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	608.45	347.60	270.71
EBITDA	Rs. Cr.	52.24	22.98	13.88
PAT	Rs. Cr.	22.22	9.55	2.93
EBITDA Margin	(%)	8.59	6.61	5.13
PAT Margin	(%)	3.65	2.75	1.08
ROCE	(%)	30.84	23.25	16.10
Total Debt/Tangible Net Worth	Times	2.45	1.63	2.03

PBDIT/Interest	Times	2.78	2.96	1.64
Total Debt/PBDIT	Times	2.72	1.80	3.75
Gross Current Assets (Days)	Days	192	143	151

Any other information

Not Applicable

Applicable Criteria

- DefaultRecognition - <https://www.smera.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Trading Entities - <https://www.smera.in/criteria-trading.htm>

Note on complexity levels of the rated instrument

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

Rating History (last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Rating/Outlook
15-Dec, 2017	Cash Credit	Long term	78.00	SMERA A-/Stable (Upgraded)
	Cash credit	Long term	55.00	SMERA A-/Stable (Assigned)
	Proposed cash credit facilities	Long term	100.00	SMERA A-/Stable (Upgraded)
	Letter of Credit	Short Term	27.00	SMERA A2+ (Upgraded)
	Letter of Credit	Short Term	25.00	SMERA A2+ (Assigned)
08-Sept, 2016	Cash Credit	Long Term	INR 48.00	SMERA BBB / Stable (Assigned)
	Proposed	Long Term	INR 78.00	SMERA BBB / Stable (Assigned)
	Letter of Credit	Short Term	INR 12.00	SMERA A3+ (Assigned)
	Proposed	Short Term	INR 47.00	SMERA A3+ (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	NA	NA	NA	148.00	SMERA A-/Stable (Reaffirmed)
Cash credit	NA	NA	NA	45.00	SMERA A-/Stable (Assigned)
Proposed Cash Credit	NA	NA	NA	40.00	SMERA A-/Stable (Reaffirmed)
Letter of Credit	NA	NA	NA	52.00	SMERA A2+ (Reaffirmed)

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ABOUT SMERA

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