

## Press Release

### JSK Marketing Limited

February 21, 2019

### Rating Reaffirmed



<b>Total Bank Facilities Rated*</b>	Rs. 360.00 Cr. (Enhanced from Rs. 285.00 Cr.)
<b>Long Term Rating</b>	ACUITE A- /Outlook: Stable (Reaffirmed)
<b>Short Term Rating</b>	ACUITE A2+ (Reaffirmed)

\* Refer Annexure for details

### Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) to the Rs. 308.00 crore bank facilities (enhanced from Rs. 233.00 Cr.) and short-term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) to the Rs. 52.00 crore bank facilities of JSK Marketing Limited (JSKL). The outlook is '**Stable**'.

JSKL, a Mumbai-based company (erstwhile JSK Marketing Private Limited), was incorporated in 1985. The company is promoted by Mr. Kunal Jiwaraajka along with his family members. The company has three broad revenue segments including sole distributorship in the western region for Nippo products, e-commerce partner and registered seller with Amazon India and distributor of varied electronic products.

### Analytical Approach

Acuité has considered a standalone approach on JSKL's business and financial risk profile for arriving at the rating.

### Key Rating Drivers

#### Strengths

#### Established business model based on diverse revenue streams:

JSKL commenced operations in 1985. Besides JSKL, the promoters have business interests in other entities namely, Panasonic Carbon India Company Limited and Indo-national Limited (Mrs. Laxmi Devi Jiwaraajka held 9.19 percent as on September 2018) to name a few. The board of JSKL comprises five members of which three represent Jiwaraajka family, namely, Mr. Kunal Jiwaraajka, Mrs. Laxmi Devi Jiwaraajka and Ms. Sakshi Kunal Jiwaraajka and two are independent directors. The company is headed by Mr. Kunal Jiwaraajka who has over a decade of expertise in trading. The company is engaged in the distribution of FMCG products (batteries, shoes, torches, and electronics, among others) for the past three decades. The company has diverse distribution network with over 300 outlets nationwide for Nippo batteries and PAN India warehouse facilities to facilitate Amazon sales and sale of electronics.

JSKL has three broad revenue segments- sole distributor in the western region for Nippo products, ecommerce partner and registered gold member with Amazon India. Additionally, it has a distribution network for offline sale of electronics.

The company has registered steady growth in revenue. The company reported revenues of Rs.860.73 crore in FY2018 as against Rs. 608.45 crore in FY2017 and Rs. 347.60 crore in FY2016. The sharp growth in revenues is on account of sharp increase in revenues from Amazon India. The Amazon segment sales contributed 44 per cent to overall sales in FY2018 as against 39 per cent in FY2017. The company has reported revenues of Rs.782.67 crore in the period April to November 30, 2018 of which 46 percent is contributed by sales through Amazon India, 19 percent from sales of Nippo and the remaining 35 percent by sales of electronics. The diverse revenue streams along with varied product categories insulate the company's business risk profile. The company has maintained its operating margins. The operating (EBITDA) margin stood at 8.32 per cent in

FY2018 as against 8.59 per cent in FY2017. The net profitability (PAT) margin stood at 3.55 per cent in FY2018 as against 3.65 per cent in FY2017.

Acuite believes that JSKL 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 tie-up with other e-commerce giants.

### **Comfortable financial risk profile**

JSKL's financial risk profile stands comfortable marked by net worth of Rs.125.56 crore (includes Rs. 46.69 crore of unsecured loans which are subordinated to bank debt) as on 31 March, 2018 compared to Rs. 97.34 crore as on 31 March, 2017 (includes unsecured loan Rs.44.91 crore). The total outstanding liabilities to total net worth (TOL/TNW) is slightly higher at 2.54 times as on 31 March, 2018 as against 2.45 times as on 31 March 2017. The company's working capital are mainly supported by trade credit and bank finances. The company has overall working capital limits of Rs. 233 crore as on December 30, 2018. The total debt of Rs.217.61 crore as on 31 March, 2018 consists of working capital outstanding of Rs. 205.36 crore, loans from NBFCs and vehicle loans from bank of Rs.12.25 crore. The company has availed equipment financing loans from NBFCs and is exploring opportunities to enhance working capital limits.

Acuite believes that JSKL'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 high Gross Current Assets (GCA) of 180 days in FY2018 (PY: 192 days). This was on account of high inventory levels of ~146 days in FY2018 as against 139 days in FY2017, leading to higher working capital requirements. The high inventory levels are due to diverse product base requirements of Amazon India to ensure quick turnaround of the orders. The debtor days stood at ~45 in FY2018 as against 54 days in FY2017. The average working capital limit utilisation of JSKML stood at ~98 per cent in the six months ended November 30, 2018.

Acuite 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**

JSKL operates in a highly competitive and fragmented industry. E-commerce portals face threat of larger customer acquisition by other portals such as Flipkart, Snapdeal and Ebay, among others, along with brick and mortar retailers. Apart from this, the company faces competition from sellers registered with Amazon India. The revenues and margins from the e-commerce 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. Further, ecommerce platforms have been under regulatory monitoring on account of their operating model and its impact on the domestic retail traders. Any significant regulatory changes against the ecommerce players are likely to impact players such as JSKL, as the company has significant operational dependence on these platforms to maintain a stable business profile.

Acuite believes that the high inventory levels expose the company to the risk of a significant inventory write down in the event of a sluggish traction in sales. This is more important in case of players such as JSKL, who deal in products including electronics and consumer products, which are highly susceptible to changing consumer taste and preferences. Any buildup in inventory beyond existing levels will be a key monitorable.

#### **Liquidity profiles**

JSKL has moderate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated net cash accruals of Rs.32.91 crore in FY2018, while its maturing debt obligations were ~Rs.2.00 crore in FY2018. JSKL's cash accruals are likely to be maintained over the near to medium term. The operations of the company are working capital intensive. The company has overall working capital limits of Rs. 233.00 crore, which has been on an average 98 percent utilised in the six month ended November 30, 2018. Acuite expects the company to maintain a moderate liquidity profile for over near to medium term.

### Outlook: Stable

Acuité believes that JSKL 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 while maintaining its working capital cycle efficiently and improvement in debt protection indicators. 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 in case of deterioration in the debt protection metrics.

### About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	860.73	608.45	347.60
EBITDA	Rs. Cr.	71.61	52.24	22.98
PAT	Rs. Cr.	30.55	22.22	9.55
EBITDA Margin	(%)	8.32	8.59	6.61
PAT Margin	(%)	3.55	3.65	2.75
ROCE	(%)	24.45	30.84	23.25
Total Debt/Tangible Net Worth	Times	1.73	1.46	0.75
PBDIT/Interest	Times	2.75	2.78	2.96
Total Debt/PBDIT	Times	2.95	2.66	1.78
Gross Current Assets (Days)	Days	180	192	143

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

Not applicable

### Any other information

Not Applicable

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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
24- Jan-2018	Cash Credit	Long Term	148.00	ACUITE A-/Stable (Reaffirmed)
	Cash Credit	Long Term	45.00	ACUITE A-/Stable (Assigned)
	Proposed Cash Credit	Long Term	40.00	ACUITE A-/Stable (Reaffirmed)
	Letter of Credit	Short Term	52.00	ACUITE A2+ (Reaffirmed)
15- Dec-2017	Cash Credit	Long Term	78.00	ACUITE A-/Stable (Upgrade)
	Cash Credit	Long Term	55.00	ACUITE A-/Stable (Assigned)
	Proposed Cash Credit	Long Term	100.00	ACUITE A-/Stable

				(Upgrade)
	Letter of Credit	Short Term	27.00	ACUITE A2+ (Upgrade)
	Letter of Credit	Short Term	25.00	ACUITE A2+ (Assigned)
Sept 8, 2016	Cash Credit	Long Term	48.00	ACUITE BBB/Stable (Assigned)
	Proposed Cash Credit	Long Term	78.00	ACUITE BBB/Stable (Assigned)
	Letter of Credit	Short Term	12.00	ACUITE A3+ (Assigned)
	Proposed Letter of Credit	Short Term	47.00	ACUITE A3+ (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	259.00 (Revised from Rs. 193 Cr.)	ACUITE A-/Stable (Reaffirmed)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	49.00 (Revised from Rs. 40 Cr.)	ACUITE A-/Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	52.00	ACUITE A2+ (Reaffirmed)

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#### About Acuite Ratings & Research:

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