

Press Release

JP Modatex LLP

June 06, 2019

Rating Upgraded



Total Bank Facilities Rated*	Rs. 75.60 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Upgraded from ACUITE BB+ /Positive)
Short Term Rating	ACUITE A3 (Upgraded from ACUITE A4+)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded long-term rating to '**ACUITE BBB-**' (read as **ACUITE triple B minus**) from '**ACUITE BB+**' (read as **ACUITE double B plus**) and short term rating to '**ACUITE A3**' (read as **ACUITE A three**) from '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs. 75.60 crore bank facilities of JP MODATEX LLP (JPM). The outlook is revised from '**Positive**' to '**Stable**'.

The rating revision is in view of significant improvement in business risk profile as marked by improving revenues along with profitability margins. The firm's revenue grew at a CAGR of ~191 percent over the last three years through 2016-18. The company reported revenue of Rs.98.08 crore for FY2019 (Provisional) as against Rs.77.37 crore in FY2018 and Rs.38.03 crore in FY2017. The firm's profitability improved significantly to 15.92 percent in FY2018 as against 3.14 percent in FY2017. The reason for improvement in margins is on account of full year manufacturing operations (60 percent contribution) and trading (40 percent) in FY2018. However, the firm has discontinued the trading activity since April, 2018. Further, JPM expertise in multiple yarn blending which generates high margins.

Established in 2015, JPM is Mumbai-based firm promoted by Mr. Jindas P Jain and Mr. Rakesh Kumar Sharma. The firm started its manufacturing operations from August 2016. The firm is engaged in the manufacturing of premium yarn (blended viscose, modal, linen, cotton, tencel, excel yarn) of various counts at Silvassa, Gujarat. The installed capacity stands at 19296 spindles.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of JPM to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management and reputed clientele**

JPM was established in 2015 and is engaged in manufacturing of premium yarn. The promoter Mr. Jindas Jain and Mr. Rakesh Kumar Sharma has been associated with textile industry for more than three decades. Before promoting JPM, the promoter held an experience of more than three decades from Samosaran group (Established in 1980). Samosaran group is engaged in manufacturing of yarn.

Acuité believes that the firm will continue to benefit through its promoters' industry experience and established relations with reputed clientele like Bombay Rayon Fashion Limited among others and its suppliers like Grasim Industries Limited among others.

- **Improving revenue with healthy profitability**

The company's revenue grew at a CAGR of ~191 percent over the last three years through 2016-18. JPM showed healthy growth in revenues marked by operating income of Rs.77.37 crore in FY2018 as against Rs.38.03 crore in FY2017. Further, the firm has booked revenue of Rs.98.08 crore for FY2019 Provisional.

Further, the firm's operating margins stood at 15.92 percent in FY2018 as against 3.14 percent in FY2017. The operating margins were low for FY2017 was on account of manufacturing operations started from August 2016. With full year of manufacturing operations in FY2018, the firm improved its margins

significantly. The firm reported Profit after Tax (PAT) margin of 3.39 percent in FY2018 against negative 4.90 percent in FY2017. Decline in PAT margins in FY2017 is due to additional depreciation charged on acquisition of new plant and machinery during the year

Acuite believes that the growth in revenue and sustenance of its profitability margins are expected to support the profitability of the firm.

Weaknesses

• Moderate financial risk profile

The financial risk profile of the company is moderate marked by tangible net worth of Rs.30.65 crore as on 31 March, 2018 as against Rs.27.06 crore as on 31 March, 2017. The net worth includes unsecured loans of Rs.18.61 crore in FY2018 from promoters which are subordinated to bank debt. Hence, Acuite has treated them as quasi equity. The gearing (debt- equity) remained moderate at 1.27 times as on March 31, 2018 against 1.21 times as on March 31, 2017. The total debt outstanding of Rs.38.93 crore as on 31 March, 2018 consists of working capital borrowing of Rs.19.33 crore and term loan of Rs.19.20 crore. The leverage and coverage indicators continue to remain moderate marked by Interest Coverage Ratio (ICR) and Debt Service Coverage Ratio (DSCR). ICR and DSCR both stood at 2.57 times in FY2018. Total outside liabilities to tangible net worth stood at 1.48 times as on 31 March, 2018 as against 1.31 times as on 31 March, 2017.

Acuite believes that absence of any further significant capex plans are expected to support the financial risk profile in near to medium term.

• Working capital intensive operations

JPM's operations are working capital intensive marked by gross current asset (GCA) of about 198 days in FY2018; an increase from 186 days in FY2017. JPM procures raw material of about 70 per cent each from domestic market and 30 percent by way of imports and maintains an inventory of about 5 weeks. This leads to moderate utilisation of its capacity at about 80 per cent. The GCA days are mainly dominated by high collection period of 127 days in FY2018 compared to 116 days in FY2017.

Acuite believes that the ability of the company to efficiently manage its working capital requirements will remain key rating sensitivity.

Liquidity position:

The company has adequate liquidity marked by its healthy net cash accruals as compared to its maturing debt obligations. JPM generated cash accruals of Rs.7.6 crore during the last three years through 2016-18, while the maturing debt obligations were in the range of Rs.0.4 crore over the same period. The cash accruals are estimated to improve to Rs.10.0-12.5 crore during 2019-21, while its repayment obligations at Rs.2.4-4.1 crore. This is on account of improvement in revenue leading to high profitability. JPM maintains cash and bank balances of Rs.0.05 crore as on March 31, 2018. The current ratio stood moderate at 1.58 times as on March 31, 2018. Acuite believes that the liquidity of the firm is likely to remain adequate over the medium term on account of healthy cash accrual and no major repayments over the medium term.

Outlook: Stable

Acuite believes that JPM's outlook will remain 'Stable' over the medium term from its experienced management along with significant improvement in revenues and profitability and moderate financial risk profile. The outlook may be revised to 'Positive' in case of higher than expected growth in its revenues while improving its profitability. The outlook may be revised to 'Negative' in case of steep decline in revenues and profitability or stretch in its working capital management leading to deterioration of its financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	77.37	38.08	9.09
EBITDA	Rs. Cr.	12.32	1.19	0.26
PAT	Rs. Cr.	2.62	(1.86)	0.13
EBITDA Margin	(%)	15.92	3.14	2.81
PAT Margin	(%)	3.39	(4.90)	1.42
ROCE	(%)	11.74	(2.53)	5.24
Total Debt/Tangible Net Worth	Times	1.27	1.21	0.00
PBDIT/Interest	Times	2.57	0.93	2.00
Total Debt/PBDIT	Times	3.11	19.37	0.02
Gross Current Assets (Days)	Days	186	238	441

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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
31-May-2017	Cash Credit	Long Term	6.00	ACUITE BB+ / Positive (Assigned)
	Term Loan	Long Term	27.00	ACUITE BB+ / Positive (Assigned)
	Bank Guarantee	Long Term	1.50	ACUITE A4+ (Assigned)
	Proposed Cash Credit	Long Term	12.50	ACUITE BB+ / Positive (Assigned)
	Proposed Term Loan	Long Term	26.60	ACUITE BB+ / Positive (Assigned)
	Proposed Bank Guarantee	Short Term	2.00	ACUITE A4+ (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	13.50	ACUITE BBB- / Stable (Upgraded from ACUITE BB+/Positive)
Term Loan	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB- / Stable (Upgraded from ACUITE BB+/Positive)

Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE A3 (Upgraded from ACUITE A4+)
Proposed Fund Based Facility	Not Applicable	Not Applicable	Not Applicable	33.60	ACUITE BBB- / Stable (Upgraded from ACUITE BB+/Positive)

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About Acuite Ratings & Research:

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