

## Press Release

JP Modatex LLP

December 02, 2020



### Rating Reaffirmed and Assigned

<b>Total Bank Facilities Rated*</b>	Rs.75.60 Cr.
<b>Long Term Rating</b>	ACUITE BBB-/ Outlook:Stable (Reaffirmed and Assigned)
<b>Short Term Rating</b>	ACUITE A3 (Reaffirmed)

\* Refer Annexure for details

### Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and the short term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the Rs.65.60 crore bank facilities of JP Modatex LLP (JPM). The outlook is '**Stable**'.

Further, Acuité has assigned the long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) on the Rs.10.00 crore bank facilities of JP Modatex LLP (JPM). The outlook is '**Stable**'.

JP Modatex LLP was established in the year 2015 by Mr. Jindas P Jain and Mr. Rakesh Kumar Sharma. The firm is engaged in manufacturing of premium yarn such as blended Viscose & Modal Yarns, Modal & Linen Yarns, Polyester & Cotton Yarn, Modal/Excel Yarns, Tencel Yarns, Polyester & Viscose yarns with different counts. The plants are located in Jalaram Industrial Estate, Village Athal, Silvassa, Dadra & Nagar Haveli with the installed capacity of 19,296 spindles with average utilization of ~80-90 percent.

### 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

JPM was established in 2015 and is engaged in manufacturing of premium yarn. The promoters; Mr. Jindas Jain and Mr. Rakesh Kumar Sharma have been associated with the textile industry for more than three decades. The promoters hold 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 etc.

##### • Moderate financial risk profile

The firm has moderate financial risk profile marked by moderate net worth, moderate gearing and above average debt protection metrics. The net worth stood at Rs.37.86 crore (Provisional) as on 31 March, 2020 as against Rs.39.78 crore on 31 March, 2019.

The firm has followed a conservative financial policy in the past; the same is reflected through its gearing levels of 1.05 times as on March 31, 2019. The gearing deteriorated marginally to 1.49 times (Provisional) as on March 31, 2020 due to further infusion of unsecured loans. Total outside liabilities to tangible net worth (TOL/TNW) stood low at 1.75 times (Provisional) as on 31 March 2020 as against 1.16 times as on 31 March 2019.

The firm, on the other hand, generated cash accruals of Rs.5.43 crore (Provisional) in FY2020 as against Rs.9.29 crore in FY2019. The profitability levels, coupled with debt levels, has led to above average debt protection measures. The NCA/TD and interest coverage ratio for FY2020 were moderate at 0.10

times (Provisional) and 1.72 times (Provisional), respectively.

Acuité believes that the financial risk profile of the firm is likely to remain moderate over the medium term, on account of moderate gearing and above average debt protection metrics.

## Weaknesses

- **Declined profitability margins**

Operating margins of the firm plummeted to 12.90 percent (Provisional) in FY2020 as compared to 15.59 percent in FY2019 on account of lower bargaining power with the firm's major supplier; Grasim Industries Limited. The firm has set up a fiber processing plant as well as diversified the supplier base to combat the same.

Acuité believes that the ability of the firm to improve its profitability margins will be a key rating sensitivity.

- **Elongated working capital cycle**

The firm's working capital management is intensive marked by its gross current asset (GCA) days of around 263 days in FY2020 (Provisional) as compared to 192 days in FY2019. The firm has maintained an inventory holding period of 90 days (Provisional) as on 31 March, 2020 as against 75 days as on 31 March, 2019. The rise in inventory holding period was mainly due to lesser orders vis-à-vis prior purchase commitments. The debtor days remained around 131 in FY2020 (Provisional) as against 98 days in FY2019.

Acuité expects the working capital management of the firm to remain intensive over the medium term on account of its debtor collection period.

## Liquidity Position: Adequate

JPM has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.5.43 crore (Provisional) for FY2020, with debt repayment obligations of Rs.2.60 crore for the same period. The cash accruals of the firm are estimated to remain in the range of around Rs.6.86 crore to Rs.10.69 crore during FY2021-23 against debt repayment obligations of Rs.2.60 crore-Rs.4.80 crore every year in the same period. The firm's working capital operations are intensive, marked by GCA of 263 days (Provisional) for FY2020. The average bank limit utilization over the past six months ended September 2020 remained at around ~96 percent. The current ratio stood high at 2.28 times (Provisional) as on 31 March, 2020.

Acuité believes that the liquidity of the firm is likely to remain adequate over the medium term on account of adequate cash accruals against its debt repayments albeit stretched in the short term as indicated by almost fully utilized bank lines.

## Rating Sensitivities

- Scaling up of operations along with improvement in profitability
- Stretch in working capital cycle leading to increased reliance on working capital borrowings

## Material Covenants

None

## Outlook: Stable

Acuité believes that JPM will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the firm registers healthy growth in revenue while maintaining profitability margins, improvement in capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of a decline in revenue, profit margins or deterioration in the financial risk profile and liquidity position.

## About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	100.34	97.65
PAT	Rs. Cr.	0.47	3.88
PAT Margin	(%)	0.47	3.97
Total Debt/Tangible Net Worth	Times	1.49	1.05
PBDIT/Interest	Times	1.72	2.51

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

Not Applicable

**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>
- 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
06-Jun-2019	Cash Credit	Long Term	13.50	ACUITE BBB-/Stable (Upgraded)
	Term Loan	Long Term	25.00	ACUITE BBB-/Stable (Upgraded)
	Bank Guarantee	Short Term	3.50	ACUITE A3 (Upgraded)
	Proposed Facility	Long Term	33.60	ACUITE BBB-/Stable (Upgraded)
21-Mar-2018	Cash Credit	Long Term	6.00	ACUITE BB+/Positive (Assigned)
	Proposed Cash Credit	Long Term	12.50	ACUITE BB+/Positive (Assigned)
	Term Loan	Long Term	27.00	ACUITE BB+/Positive (Assigned)
	Proposed Term Loan	Long Term	26.60	ACUITE BB+/Positive (Assigned)
	Bank Guarantee	Short Term	1.50	ACUITE A4+ (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
Term Loan	18-Jun-2016	Not Applicable	18-Jun-2025	22.90	ACUITE BBB-/Stable (Reaffirmed)
Term Loan	10-Dec-2019	Not Applicable	10-Nov-2027	10.00	ACUITE BBB-/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.50	ACUITE BBB-/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE A3 (Reaffirmed)
Proposed Facilities	Not Applicable	Not Applicable	Not Applicable	20.70	ACUITE BBB-/Stable (Reaffirmed)

## Contacts

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### About Acuité Ratings & Research:

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