

Press Release

JP Modatex LLP

February 22, 2022



Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	72.10	ACUITE BB+ Stable Downgraded	-
Bank Loan Ratings	3.50	-	ACUITE A4+ Downgraded
Total Outstanding Quantum (Rs. Cr)	75.60	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has downgraded the long-term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short-term rating to '**ACUITE A4+**' (read as **ACUITE A four plus**) from '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.75.60 Cr. bank facilities of J P Modatex LLP (JPM). The outlook is '**Stable**'.

Rationale for revision of ratings

The rating revision takes into account the deterioration in operating income, PAT margins, debt coverage indicators, stretch in working capital and liquidity position, and significantly high gearing on a Y-O-Y basis during the FY2020-21 period.

About the Company

Based out of Mumbai and established in 2015, JP Modatex LLP is led by Mr. Jindas P Jain and Mr. Rakesh Kumar Sharma. The firm is engaged in the 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.

Analytical Approach

Acuite has considered the standalone view of the business and financial risk profile of JPM to arrive at the rating.

Key Rating Drivers

Strengths

Experienced management

JPM was established in 2015 and is engaged in the 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 experience of more than three decades from the Samosaran group (Established in 1980). Samosaran group is engaged in the manufacturing of yarn. Acuite 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 to name a few.

Weaknesses

Inconsistent Operating performance

The performance of JPM has fluctuated during the FY2019-21 period, this is reflected in its Operating (EBITDA) margins of 18.20 percent in FY2021 (Provisional) as against 10.23 percent in FY2020 and 15.59 percent in FY2019, while its PAT margins stood marginal at 0.29 percent in FY2021 (Provisional) as against 0.30 percent in FY2020 as borrowing costs increased. Further, the Operating income has deteriorated in FY2021 (Prov.) due to the impact of covid-19, which is expected to be overcome in FY2022.

Deterioration in working capital management

JPM's working capital management has deteriorated on a Y-O-Y basis marked by elongation in GCA days to 423 days in FY2021 (Provisional) as against 263 days in FY2020. The increase in its debtors' collection period and elongation in its inventory holding period has contributed significantly to the GCA. The debtors' collection period stood at 203 days in FY2021 (Provisional) as against 132 days in FY2020, while its inventory holding period stood at 197 days in FY2021 (Provisional) as against 99 days in FY2020. The buildup of the inventory holding period was mainly due to lesser orders vis-à-vis prior purchase commitments. Stretch in working capital is further witnessed with the increase in creditors' payment period to 193 days in FY2021 (Provisional) as against 64 days in FY2020 indicating stress on working capital. The average fund and non-fund-based working capital limit utilization stand at near 100 percent for the 6-month period ended January 2022 as informed by the banker.

Weak financial risk profile

The firm has a weak financial risk profile marked by modest net worth, high gearing, and deteriorating coverage indicators. The net worth stood at Rs.17.14 crore as on March 31, 2021 (Provisional) as against Rs.15.93 crore on March 31, 2020. Loans from family members earlier treated as quasi-equity are now being treated as interest-bearing, noncommittal, unsecured loans forming part of the existing debt profile which also consists of both Short-Term and Long Term Debt.

JPM has an aggressive financial policy marked by Gearing of 4.53 times as on March 31, 2021 (Provisional) as against 4.95 times on March 31, 2020, while adjusted gearing (ex-USL) 3.05 times as on March 31, 2021 (Provisional) as against 2.73 times on March 31, 2020. TOL/TNW stands high at 5.42 times as on March 31, 2021 (Provisional) as against 5.67 times on March 31, 2020. Its Coverage indicators have deteriorated marked by Interest Coverage Ratio (ICR) of 1.45 times as on March 31, 2021 (Provisional) as against 1.74 times on March 31, 2020 and Debt-Service Coverage Ratio (DSCR) of 1.10 times as on March 31, 2021 (Provisional) as against 1.74 times on March 31, 2020.

Acuite believes the financial risk profile is expected to remain at similar levels in the absence of any capital infusion plans.

Rating Sensitivities

- Significant improvement in scale of operations, while maintaining its profitability margins.
- Deterioration in the working capital cycle leading to stress on the debt protection metrics or the liquidity position of the entity.

Material covenants

None

Liquidity Position: Stretched

JPM has a stretched liquidity position marked by inadequate net cash accruals vis-à-vis its maturing debt obligations. JPM generated net cash accruals of Rs.3.73 crore (Provisional) for FY2021 while its maturing debt repayment obligations stood at more than ~Rs.4.00 crore for the same period. Since the repayments are linked from the CC limits availed, timeliness of repayments is being maintained with working capital limits being utilized at an average of near 100 percent for the 6-month period ended January 2022.

The cash accruals of the firm are estimated to remain in the range of around Rs.8.00 crore to

Rs.12.00 crore during FY2022-24 against debt repayment obligations of ~Rs.7.00 crore annual during the same period. The firm's working capital is stretched, marked by a GCA of 423 days for FY2021 (Provisional). While the current ratio stood at 1.95 times as on March 31, 2021 (Provisional).

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.

Key Financials

Particulars	Unit	FY 21 (Provisional)	FY 20 (Actual)
Operating Income	Rs. Cr.	65.45	96.60
PAT	Rs. Cr.	0.19	0.29
PAT Margin	(%)	0.29	0.30
Total Debt/Tangible Net Worth	Times	4.53	4.95
PBDIT/Interest	Times	1.45	1.74

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>
- 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
02 Dec 2020	Cash Credit	Long Term	18.50	ACUITE BBB- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	20.70	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	10.00	ACUITE BBB- Stable (Assigned)
	Bank Guarantee	Short Term	3.50	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	22.90	ACUITE BBB- Stable (Reaffirmed)
06 Jun 2019	Bank Guarantee	Short Term	3.50	ACUITE A3 (Upgraded from ACUITE A4+)
	Term Loan	Long Term	25.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Positive)
	Proposed Bank Facility	Long Term	33.60	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Positive)

	Cash Credit	Long Term	13.50	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Possitive)
21 Mar 2018	Bank Guarantee	Short Term	1.50	ACUITE A4+ (Assigned)
	Proposed Bank Guarantee	Short Term	2.00	ACUITE A4+ (Assigned)
	Cash Credit	Long Term	6.00	ACUITE BB+ Possitive (Assigned)
	Proposed Cash Credit	Long Term	12.50	ACUITE BB+ Possitive (Assigned)
	Term Loan	Long Term	27.00	ACUITE BB+ Possitive (Assigned)
	Proposed Term Loan	Long Term	26.60	ACUITE BB+ Possitive (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Bank of Baroda	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE A4+ Downgraded
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.50	ACUITE BB+ Stable Downgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	8.78	ACUITE BB+ Stable Downgraded
Bank of Baroda	Not Applicable	Term Loan	29-12-2021	8.57	31-12-2028	8.57	ACUITE BB+ Stable Downgraded
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	8.30	ACUITE BB+ Stable Downgraded
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	1.00	ACUITE BB+ Stable Downgraded
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	1.25	ACUITE BB+ Stable Downgraded
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	4.68	ACUITE BB+ Stable Downgraded
Bank of Baroda	Not Applicable	Term Loan	18-05-2016	11.05	31-05-2025	19.88	ACUITE BB+ Stable Downgraded
Bank of Baroda	Not Applicable	Term Loan	12-10-2019	11.05	30-11-2027	1.14	ACUITE BB+ Stable Downgraded

*CC facility consists of sublimit of PSFC facility upto Rs.3.50 Cr., PCFC/PC upto Rs.1.00 Cr. and ILC facility upto Rs.8.00 Cr.

**BG facility consists of sublimit of ILC facility upto Rs.1.75 Cr.

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About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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