

## Press Release

JP Modatex LLP

May 17, 2023



## Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	62.10	ACUITE BB+   Stable   Reaffirmed	-
Bank Loan Ratings	13.50	-	ACUITE A4+   Reaffirmed
<b>Total Outstanding Quantum (Rs. Cr)</b>	75.60	-	-

## Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) and the short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.75.60 Cr. bank facilities of J P Modatex LLP (JPM). The outlook is '**Stable**'.

## Rationale for rating reaffirmation

The rating reaffirmation of JPM takes into account improvement in the firm's operating performance in FY2022 and its moderate financial risk profile. It also draws comfort from the experienced management of the firm and its reputed clientele. The rating is however constrained by the firm's inconsistent operating performance for FY2023 (Estimated), moderately working capital-intensive operations and stretched liquidity position marked by its high bank limit utilisation. Going forward, ability of the firm to maintain a consistent operating performance while improving and maintaining an efficient working capital cycle will remain a key rating sensitivity factor.

## About the Company

JPM established in 2015, is a Mumbai based partnership firm 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

Acuité 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 and reputed clientele

JPM has an operational track record of nearly a decade and it is promoted by Mr. Jindas P. Jain and Mr. Rakesh Kumar Sharma. The promoters are associated with the textile industry for more than three decades through Samosaran group, which is engaged in the yarn manufacturing business since 1948. The promoters are being supported by its team of experienced professionals in managing day to day operations of JPM. The extensive experience of the management has enabled JPM to establish a healthy relationship with its

reputed customers such as GM fabrics, D Décor Home Fabrics and suppliers such as Reliance Industries Limited, Grasim Industries Limited amongst others.

JPM's operating performance stood improved in FY2022 as it reported an increase in its revenue of Rs.115 Cr as against Rs.63 Cr in FY2021 which is a growth of ~82 percent and has achieved this on account of improved demand from both domestic and exports post pandemic phase for the various kind of yarns been produced by the firm. The operating margin and net profit margin of the firm therefore stood improved at 14.80 percent and 3.40 percent in FY2022 as against 7.08 percent and (11.22) percent in FY2021.

However, in FY2023, JPM is estimated to generate slightly lower revenue of Rs.103 Cr on account of volatility across the entire textile industry which affected the firm's overall yarn production business during the year.

Acuité believes that JPM will continue to benefit from its experienced management and reputed clientele.

### **Moderate financial risk profile**

Financial risk profile of JPM is moderate marked by moderate net worth, low gearing and comfortable debt protection metrics. The tangible net worth of the firm stood improved at Rs.40 Cr as on 31 March, 2022 as against Rs.16 Cr as on 31 March, 2021. It includes the amount of Rs.23 Cr treated as quasi equity since the unsecured loans from directors infused into the business will remain subordinated to bank borrowings. The gearing (debt-equity) therefore stood improved at 1.42 times as on 31 March, 2022 as against 4.81 times as on 31 March, 2021. The gearing of the firm is expected to improve further and remain low over the medium term on account of absence of any debt funded capex plans. The total debt of Rs.57 Cr as on 31 March, 2022 consists of long term bank borrowings of Rs.37 Cr, short term bank borrowings of Rs.19 Cr and unsecured loans from banks and NBFCs of Rs.1 Cr.

The interest coverage ratio and DSCR stood improved at 2.14 times and 1.43 times for FY2022 as against 0.78 times and 0.58 times for FY2021. The Net Cash Accruals to Total debt stood improved at 0.16 times for FY2022 as against (0.02) times for FY2021. The Total outside liabilities to Tangible stood improved at 1.83 times for FY2022 as against 5.75 times for FY2021. The Debt-EBITDA ratio stood improved at 3.34 times for FY2022 as against 11.47 times for FY2021.

Acuité believes that the financial risk profile of JPM is expected to improve over the medium term due to its moderate debt levels vis-à-vis moderate tangible net worth and comfortable debt protection metrics.

### **Weaknesses**

#### **Moderately working capital intensive operations**

The working capital operations of JPM are moderately intensive marked by its Gross Current Assets (GCA) of 234 days for FY2022 which stood improved as against 420 days for FY2021. This is due to inventory and receivables cycle of the firm which though remains elongated, however recorded an improvement in FY2022 of 92 days and 123 days as against 159 days and 209 days in FY2021. The creditors cycle of the firm also stood improved at 82 days in FY2022 as against 147 days in FY2021. The average bank limit utilization for 6 months' period ended December 2022 however stood high at ~95 percent.

Acuité believes that the ability of JPM to improve and maintain an efficient working capital cycle over the medium term will remain a key rating sensitivity factor.

### **Highly competitive industry and susceptibility of margins to volatility in raw material prices**

The textile industry is a highly fragmented industry and presence of large number of organised and unorganised players have created high competition in the industry. JPM faces competition from large players from organized segment as well as numerous players in the unorganised segment. The firm operates in textile industry which is exposed to raw material fluctuation risk i.e. cotton and agro climatic risk depending on monsoon. The fluctuation in

raw material prices has direct impact on revenues and operating margins of the company.

### Rating Sensitivities

- Ability to maintain a consistent operating performance
- Ability to improve and maintain an efficient working capital cycle

### Material covenants

None

### Liquidity position - Stretched

JPM has stretched liquidity position marked by its high bank limit utilisation. The average bank limit utilization for 6 months' period ended December 2022 stood at ~95 percent. The firm however generated sufficient cash accruals in the range of Rs.5 Cr to Rs.9 Cr during FY2020 to FY2022 against its repayment obligation in the range of Rs.3 Cr to Rs.5 Cr during the same period. Going forward the NCA are expected in the range of Rs.7 Cr to Rs.13 Cr for period FY2023-FY2025 against its repayment obligation in the range of Rs.6 Cr to Rs.8 Cr during the same period. The working capital operations of the firm are moderately intensive marked by its gross current asset (GCA) days of 234 days for FY2022 as against 420 days for FY2021. Current ratio stands at 1.81 times as on 31 March 2022. The firm has maintained cash & bank balance of Rs.0.08 Cr in FY2022.

Acuité believes that the liquidity of JPM is likely to improve and remain adequate over the medium term on account of sufficient cash accruals expected to be generated against its maturing debt obligations.

### Outlook: Stable

Acuité believes that JPM will maintain 'Stable' outlook over the medium term on account of its experienced management and reputed clientele. The outlook may be revised to 'Positive' in case of significant and sustained growth in revenue and profitability while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to 'Negative' in case of lower than expected growth in revenue or deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

### Other Factors affecting Rating

None

### Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	114.80	62.98
PAT	Rs. Cr.	3.90	(7.07)
PAT Margin	(%)	3.40	(11.22)
Total Debt/Tangible Net Worth	Times	1.42	4.81
PBDIT/Interest	Times	2.14	0.78

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

Not applicable

### Any other information

None

### Applicable Criteria

- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

### Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in).

### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
22 Feb 2022	Term Loan	Long Term	4.68	ACUITE BB+   Stable (Downgraded from ACUITE BBB-   Stable)
	Term Loan	Long Term	8.57	ACUITE BB+   Stable (Downgraded from ACUITE BBB-   Stable)
	Term Loan	Long Term	8.30	ACUITE BB+   Stable (Downgraded from ACUITE BBB-   Stable)
	Term Loan	Long Term	1.14	ACUITE BB+   Stable (Downgraded from ACUITE BBB-   Stable)
	Cash Credit	Long Term	18.50	ACUITE BB+   Stable (Downgraded from ACUITE BBB-   Stable)
	Term Loan	Long Term	19.88	ACUITE BB+   Stable (Downgraded from ACUITE BBB-   Stable)
	Term Loan	Long Term	1.25	ACUITE BB+   Stable (Downgraded from ACUITE BBB-   Stable)
	Bank Guarantee	Short Term	3.50	ACUITE A4+ (Downgraded from ACUITE A3)
	Proposed Bank Facility	Long Term	8.78	ACUITE BB+   Stable (Downgraded from ACUITE BBB-   Stable)
	Term Loan	Long Term	1.00	ACUITE BB+   Stable (Downgraded from ACUITE BBB-   Stable)
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)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Bank of Baroda	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	3.50	ACUITE A4+   Reaffirmed
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	18.50	ACUITE BB+   Stable   Reaffirmed
Bank of Baroda	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A4+   Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	10.39	ACUITE BB+   Stable   Reaffirmed
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	8.57	ACUITE BB+   Stable   Reaffirmed
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	5.30	ACUITE BB+   Stable   Reaffirmed
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.82	ACUITE BB+   Stable   Reaffirmed
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	4.68	ACUITE BB+   Stable   Reaffirmed
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	13.84	ACUITE BB+   Stable   Reaffirmed

## Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 <a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a>  Nilesh Soni Senior Analyst-Rating Operations Tel: 022-49294065 <a href="mailto:nilesh.soni@acuite.in">nilesh.soni@acuite.in</a>	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>

### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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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