

## Press Release

### J B Ecotex LLP

February 12, 2020

### Rating Upgraded



<b>Total Bank Facilities Rated*</b>	Rs.136.50 Cr.
<b>Long Term Rating</b>	ACUITE BBB / Outlook: Stable (Upgraded from ACUITE BBB-/ Stable)
<b>Short Term Rating</b>	ACUITE A3+ (Upgraded from ACUITE A3)

\* Refer Annexure for details

### Rating Rationale

Acuite has upgraded its long term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating to '**ACUITE A3+**' (read as **ACUITE A three plus**) from '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.136.50 cr. bank facilities of J B Ecotex LLP. The outlook is '**Stable**'.

The upgrade is in view of significant growth in revenues of the firm while sustaining profitability margins and the financial risk profile. The firm reported operating income of Rs.427.43 crore in FY2019 as against Rs.254.58 crore in FY2018 while the operating margins stood at 11.66 percent for FY2019 as against 11.43 percent for FY2018. Acuite believes going ahead the firm will sustain the growth in revenues and profitability margins over the medium term.

Gujrat-based J B Ecotex LLP (JBEL) was established in 2012 as a Limited Liability Partnership (LLP) firm by Mr. Ayodhyaprasad Singhal, Mr. Hemantkumar Dhandaria, Mr. Himansu Jariwala and Mr. Jitendra Arya. The firm is engaged in manufacturing of polyester fibres from pet bottles. JBEL has a manufacturing capacity in Surat with an installed capacity 5000 tonnes per month.

### Analytical Approach

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

### Key Rating Drivers

#### Strengths

#### • Experienced management and improvement in the business risk profile

The partners, Mr. Ramdas Jindal, Mr. Ayodhyaprasad J. Singhal, Mr. Himanshu S Jariwala and Mr. Jitendra Arya have more than two decades of experience in the textile industry. The extensive experience of the partners has helped the firm to generate healthy relations with various customers and suppliers in both domestic as well as global market.

The firm witnessed improvement in its business risk profile during last three years ended FY2019. The operating income of the firm improved to Rs.427.43 crore in FY2019 as against Rs.254.58 crore in FY2018 while the operating margins stood at 11.66 percent for FY2019 as against 11.43 percent for FY2018. Further, the firm has reported revenues of around Rs.292 crore (Provisional) during April-December 2020.

Acuite believes that JBEL will continue to benefit from the partner's established presence in the textile industry and its improving business risk profile over the medium term.

#### • Above average financial risk profile

JBEL has above average financial risk profile marked by a healthy net worth, moderate gearing and debt protection metrics. The net worth of the firm improved to Rs.75.40 crore as on 31 March 2019 as against Rs.68.30 crore as on 31 March 2018. It includes unsecured loans to the tune of Rs.20.35 crore as on 31 March 2019, which is considered as quasi equity as it is subordinated to the bank debt. The increase in the net worth was mainly on account of healthy accretion to reserves during the period.

The firm has followed a moderate financial policy in the past, the same is reflected through its peak gearing and total outside liabilities to tangible net worth (TOL/TNW) levels of 1.95 times and 2.53 times respectively as on 31 March 2018. The leverage matrices have marginally improved with gearing and

TOL/TNW of around 1.69 times and 2.05 times respectively as on 31 March 2019.

The revenues of the firm increased to Rs.427.43 crore during FY2019 from Rs.253.84 crore in FY2018, while its operating margins were remained stable in the range of 11.40-11.60 per cent. The healthy profitability levels albeit increased finance cost has led to marginal decline in debt protection measures. The interest coverage ratio for FY 2019 were moderate at 2.37 times as against 2.62 times for FY2018 while the Debt Service Coverage Ratio (DSCR) stood around 1.50 times in FY2019 and FY2018.

Acuite believes the financial risk profile to improve over the medium term in absence of any debt funded capex plan.

#### • Improvement in working capital management

JBEL has witnessed improvement in working capital operations marked by Gross Current Asset (GCA) of 70 days in FY2019 compared to 130 days in FY2018. The GCA days have improved mainly because of early realisation from debtors of 49 days in FY2019 compared to 58 days in FY018 and lowering of inventory days of 21 days in FY2019 compared to 74 days in FY2018. The average cash credit utilisation for the past six months ended December 2019 stood at ~90 percent. Acuite believes that the efficient working capital management will be crucial to the firm in order to maintain a stable credit profile.

#### Weaknesses

##### • Competitive and fragmented industry

JBEL operates in a highly competitive and fragmented industry having characterised by large number of unorganised players mainly on account of low entry barriers. This can have an impact on the profitability margins of the firm.

##### • Risk of capital withdrawal

JBEL is exposed to risk of capital withdrawal considering its partnership constitution. However, there were no significant withdrawals observed during the period under study.

#### Liquidity position: Adequate

The firm has adequate liquidity position marked by adequate net cash accruals against its maturing debt obligations. The firm generated cash accruals of Rs.15-28 crores for last three years through FY2019 while its maturing debt obligation stood in the range of Rs.10-13 crore for the same period. Going forward, the cash accruals are expected to be in the range of Rs.30-40 crore against the debt obligation of around Rs.12-13 crore for the period of FY2020-22. The average working capital utilization levels for past six months ended December 2019 stood at around 90 percent. The firm maintains unencumbered cash and bank balances of Rs.1.84 crore as on 31 March 2019. The current ratio of the firm stood low at 0.95 times as on 31 March 2019. Acuite believes that the liquidity of firm is likely to remain adequate over the medium term on account of comfortable cash accruals against the repayment obligations over the medium term.

#### Rating Sensitivities

- Improvement in the financial risk profile
- Deterioration in the working capital cycle leading to stress on the liquidity position

#### Material Covenants

- Firm to maintain unsecured loans to the tune of Rs.34.27 crore as on September 2019 in the business.

#### Outlook: Stable

Acuite believes JBEL will maintain a 'Stable' business risk profile over the medium term benefiting from its experienced management. The outlook may be revised to 'Positive' in case of healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues or profit margins, or in case of deterioration in financial risk profile and liquidity position.

#### About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	423.58	253.84
PAT	Rs. Cr.	19.31	12.46
PAT Margin	(%)	4.52	4.90
Total Debt/Tangible Net Worth	Times	1.69	1.95
PBDIT/Interest	Times	2.37	2.62

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

None

**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>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.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
08-Jul-19	Cash Credit	Long term	10.00	ACUITE BBB-(Indicative)
	Term Loan	Long term	41.52	ACUITE BBB-(Indicative)
	Term Loan	Long term	11.75	ACUITE BBB-(Indicative)
	Cash Credit	Long term	30.00	ACUITE BBB-(Indicative)
	Term Loan	Long term	36.14	ACUITE BBB-(Indicative)
	Term Loan	Long term	2.00	ACUITE BBB-(Indicative)
	Bank Guarantee	Short Term	3.20	ACUITE A3 (Indicative)
	Proposed Bank Facility	Long term	1.89	ACUITE BBB-(Indicative)
08-May-18	Cash Credit	Long term	10.00	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long term	41.52	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long term	11.75	ACUITE BBB-/Stable (Assigned)
	Cash Credit	Long term	30.00	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long term	36.14	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long term	2.00	ACUITE BBB-/Stable (Assigned)
	Bank Guarantee	Short Term	3.20	ACUITE A3 (Assigned)
	Proposed Bank Facility	Long term	1.89	ACUITE BBB-/Stable (Assigned)

**\*Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB/Stable (Upgraded from ACUITE BBB-/Stable)
Term loans	Not Applicable	Not Applicable	Not Applicable	33.38 (Revised from Rs.41.52 Cr.)	ACUITE BBB/Stable (Upgraded from ACUITE BBB-/Stable)
Term loans	Not Applicable	Not Applicable	Not Applicable	9.72 (Revised from Rs.11.75 Cr.)	ACUITE BBB/Stable (Upgraded from ACUITE BBB-/Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	40.00 (Enhanced from Rs.30.00 Cr.)	ACUITE BBB/Stable (Upgraded from ACUITE BBB-/Stable)
Term loans	Not Applicable	Not Applicable	Not Applicable	22.86 (Revised from Rs.36.14 Cr.)	ACUITE BBB/Stable (Upgraded from ACUITE BBB-/Stable)
Term loans	Not Applicable	Not Applicable	Not Applicable	1.51 (Revised from Rs.2.00 Cr.)	ACUITE BBB/Stable (Upgraded from ACUITE BBB-/Stable)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	3.75 (Enhanced from Rs.3.20 Cr.)	ACUITE A3+ (Upgraded from ACUITE A3)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	15.28 (Revised from Rs.1.89 Cr.)	ACUITE BBB/Stable (Upgraded from ACUITE BBB-/Stable)

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**About Acuite Ratings & Research:**

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