

Press Release

J B Ecotex LLP

May 11, 2021



Rating Reaffirmed and Outlook Revised

Total Bank Facilities Rated*	Rs.136.50 Cr.
Long Term Rating	ACUITE BBB / Outlook: Negative (Reaffirmed; Outlook revised from Stable)
Short Term Rating	ACUITE A3+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and the short term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs.136.50 Cr. bank facilities of J B Ecotex LLP (JBEL). The outlook is revised to '**Negative**' from '**Stable**'.

Rationale for revision of outlook

The revision of outlook to negative is on account of lower than expected realisations from its customers due to the impact of crude prices which has resulted in stretch in the liquidity and higher working capital utilisation. Stretch in liquidity is further accentuated on account of withdrawal of quasi equity from the business as it is in the process of changing the constitution of the entity.

About the Firm

Gujrat based J B Ecotex LLP (JBEL) was established in 2012 by Mr. Ayodhya Prasad Singhal, Mr. Hemant kumar Dhandaria, Mr. Himanshu Jariwala, Mr. Jitendra Arya, Mrs. Monika Gupta, Mr. Ramdas Jindal, Mr. Sajjankumar Kejriwala. The firm which is a part of Jay Bharat Group, started its production activity in October, 2015 and proceeded for expansion in FY2017. The firm is engaged in manufacturing and export of Recycled Polyester Staple Fibre (RPSF) and PET Flakes from PET bottles.

Analytical Approach

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

Key Rating Drivers

Strengths

• Established operations supported by experienced management

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 relationship with its customers and suppliers in both domestic as well as global market.

JBEL which is a part of Jay Bharat Group, chaired by Mr. Jitendra Arya since 1985, started its business with the flagship firm JayBharat Dyeing and Printing Private Limited in the field of polyester textile dyeing & printing. The quality of the fabrics processed at Jay Bharat Dyeing & Printing, using the latest technology machines from India and abroad, brought immediate success to the group. The group has focused on penetrating deep into the core segments where it has operated. The group has expanded to cater the requirements for other fabrics like cotton, viscose, PV etc., recently it has expanded the portfolio by entering into manufacturing of yarns and yarn dyeing as well.

Acuite believes that JBEL will continue to benefit from the partner's established presence in the textile industry.

Weaknesses

• Moderation in the business risk profile

JBEL has witnessed moderation in its business risk profile on account of impact of crude prices, nonetheless JBEL has been able to sustain its sales in terms of volumes. This is visible in decline of revenues to Rs.287.11 Cr. in FY2021 (Provisional) as against Rs.361.27 Cr. in FY2020 and 423.58 crore in FY2019 which has trickled down to the profitability indicators of the firm. The Operating (PBDIT) margin of the firm stood at 9.14 percent in FY2021 (Provisional) as against 9.82 percent in FY2020 and 11.66 percent in FY2019, while the PAT margins stood at 1.20 percent in FY2021 (Provisional) as against 2.87 percent in FY2020 and 4.56 percent in FY2019. Similarly, The ROCE has also deteriorated over the years to 8.73 percent in FY2021 (Provisional) as against 13.38 percent in FY2020 and 20.23 percent in FY2019.

Acuite believes that the business risk profile of JBEL is expected to improve in the near to medium supported by backward integration into manufacturing of PET Flakes, healthy order book, minimal impact of Covid-19 on volume sales, focus on export markets for expansion and expected increase in crude oil prices supporting growth in revenues.

• Moderation in the financial risk profile

JBEL's financial risk profile stands moderated marked by fluctuating capital structure and moderated coverage indicators.

The tangible net worth of the firm has moderated to Rs.86.06 Cr. as on March 31, 2021 (Provisional) as against Rs.94.79 Cr. as on March 31, 2020 on account of withdrawal of partners' capital and reduction in quasi equity capital (subordinated to bank debt) from the firm. JBEL follows a moderate financial policy as reflected in its Gearing (Debt to Equity) of 1.31 times as on March 31, 2021 (Provisional) as against 1.18 times as on March 31, 2020. The debt profile majorly consists of long term debt of Rs.78.15 Cr. and short term fund based working capital facilities of Rs.34.59 Cr. The deterioration in gearing is on account decline in capital employed in the firm which has further been aggravated on account of Covid-19 assistance availed by the firm in the form of long term debt. The firm also avails non-fund based facilities in the form of bank guarantees to meet its working capital requirements.

The TOL/TNW (Total Outside Liabilities to Tangible Net Worth) and the Debt-EBITDA stood at 1.63 times and 4.13 times respectively as on March 31, 2021 (Provisional) as against 1.50 times and 0.18 times respectively as on March 31, 2020. Moderation of these indicators can be attributed to the increase in the debt availed for expansion and decline in the revenue in FY2021 (Provisional) that has impacted the financial risk profile.

The coverage indicators too have deteriorated on a Y-O-Y basis, as reflected in the Interest Coverage Ratio (ICR) of 1.92 times in FY2021 (Provisional) as against 2.46 times in FY2020, and Debt-Service Coverage Ratio (DSCR) of 0.93 times in FY2021 (Provisional) as against 1.21 times in FY2019.

The NCA/TD (Net Cash Accrual to Total Debt) too has witnessed moderation to 0.12 times in FY2021 (Provisional) as against 1.18 times in FY2020 primarily due to moderation in performance in FY2021. The additional debt availed by the firm has also been a contributing factor to the deterioration of NCA/TD.

Acuite believes that the financial risk profile of JBEL may improve in the near to medium term in the absence of additional debt expected to be raised by the firm or additional capital infusion.

• Moderate working capital requirements

JBEL's operations are working capital intensive marked by elongation of Gross Current Assets (GCA) to 105 days in FY2021 (Provisional) as against 94 days in FY2020. Elongation in GCA days is primarily on account of elongation in inventory holding period and debtors' collection period. The inventory holding period stood at 48 days in FY2021 (Provisional) as against 41 days in FY2020, while the Debtors collection period stood at 61 days in FY2021 (Provisional) as against 48 days in FY2020. Similarly, creditors' payment period stood at 34 days in FY2021 (as against 8 days in FY2019).

The fund based working capital limits remain utilised at an average of more than 90 percent for the trailing 6 month's period ended March, 2021.

Acuite believes that the firm's ability to manage its varying working capital requirements that significantly get impacted by the market conditions will be a key rating sensitivity factor.

• Highly competitive processing industry and impact of economic slowdown on account of Covid-19

JBEL operates in a highly fragmented and competitive industry marked by the presence of a large number of organised and unorganised players. The firm is exposed to intense competition from both domestic players as well as the established players in the overseas market. The industry has been impacted by

ongoing pandemic having an adverse impact on operating performance of most of the players, including JBEL.

• **Margins and revenues susceptible to raw material prices and foreign exchange fluctuation risk**

The base raw material being the crude forms a major component of the overall cost structure of the company. With crude oil prices being volatile in nature, the company faces significant risk on the final sale value of its products. This is visible in the deteriorating revenues generated by the firm and the profitability indicators of the firm during the FY2018-21 period. The company, however, mitigates the foreign exchange risk through forward contracts to some extent.

• **Risk of capital withdrawal**

JBEL is exposed to the inherent risk of capital withdrawal being a limited liability partnership constitution by nature which has adversely affected the capital structure of the firm and limiting its financial flexibility. The partners have withdrawn capital amounting to Rs.12.37 Cr in FY2021 (Provisional). This risk is however expected to be mitigated as the entity is in the process of changing its constitution.

Liquidity position: Stretched

JBEL has stretched liquidity position marked by withdrawal of partners' capital and quasi equity capital from the business. While the firm further availed moratorium on its maturities on account of covid-19 pandemic, the liquidity buffer created was withdrawn by the partners as the firm is in the process of changing its constitution with NOC received from the banker and process with ROC pending.

The company generated Net Cash Accruals (NCA) of Rs.13.11 Cr vis-à-vis its maturing debt obligations of Rs.15.13 Cr in FY2021 (Provisional) indicating inadequate NCA vis-à-vis its maturing debt obligations; However, the Covid-19 assistance availed in the form of moratorium has helped the company in repaying its debt obligations. The cash accruals of the company are expected to remain in the range of Rs.19.00-Rs.38.00 Cr. annually for the FY2022-24 period against debt repayment obligations of ~Rs.13.00-Rs.17.00 Cr during the same period. The average utilisation of fund based working capital limits remained highly utilised at more than 90 percent for the trailing 6 month period ended March, 2021, while the non-fund based facilities remain utilised at ~50 percent as on March 31, 2021. The company maintained unencumbered cash and bank balances of Rs.0.07 crore as on March 31, 2021 (Provisional) while the current ratio of the company stood moderate at 1.16 times as on March 31, 2021 (Provisional).

Acuite believes that the liquidity of the firm is expected to remain stretched owing to further withdrawal of partner's capital from the firm.

Rating Sensitivities

- Significant improvement in scale of operations while sustaining its profitability margins and financial risk profile.
- Deterioration in the working capital cycle leading to stress in the debt protection metrics or the liquidity position of the firm.
- Increase in total debt resulting in further deterioration of financial risk profile.

Material Covenants

None

Outlook: Negative

Acuite believes that the credit profile of JBEL is likely to face pressures over the medium term owing to stretched liquidity and build-up in inventory and debtors due to falling crude prices. The ratings may be downgraded in case of further elongation in the working capital cycle, withdrawal of capital from the business further impairing its liquidity position. Conversely, the outlook may be revised to 'Stable' in case of significant and sustainable improvement in revenue and working capital cycle, thereby translating into significant improvement in its liquidity profile and debt protection indicators.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	287.11	361.27
PAT	Rs. Cr.	3.46	10.38
PAT Margin	(%)	1.20	2.87

Total Debt/Tangible Net Worth	Times	1.31	1.18
PBDIT/Interest	Times	1.92	2.46

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

CRISIL, vide its press release dated March 12, 2020 has classified the credit rating of J B Ecotex LLP (JBEL) as [CRISIL] B+/Stable/A4 (Issuer Not Cooperating); on account of lack of adequate information required for monitoring of ratings.

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
12-Feb-2020	Cash Credit	Long Term	10.00	ACUITE BBB / Stable (Upgraded)
	Term Loan	Long Term	33.38	ACUITE BBB / Stable (Upgraded)
	Term Loan	Long Term	9.72	ACUITE BBB / Stable (Upgraded)
	Cash Credit	Long Term	40.00	ACUITE BBB / Stable (Upgraded)
	Term Loan	Long Term	22.86	ACUITE BBB / Stable (Upgraded)
	Term Loan	Long Term	1.51	ACUITE BBB / Stable (Upgraded)
	Bank Guarantee	Short Term	3.75	ACUITE A3+ (Upgraded)
	Proposed Bank Facility	Long Term	15.28	ACUITE BBB / Stable (Upgraded)
08-Jul-2019	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-2018	Cash Credit	Long Term	10.00	ACUITE BBB- / Stable (Assigned)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
	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. Cr.)	Ratings/Outlook
Cash Credit – I	Not Applicable	9.00%	Not Applicable	40.00*	ACUITE BBB / Negative (Reaffirmed; Outlook revised from Stable)
Cash Credit – II	Not Applicable	9.25%	Not Applicable	10.00**	ACUITE BBB / Negative (Reaffirmed; Outlook revised from Stable)
Term Loan – I	November, 2014	13.00%	October, 2022	16.51 (Revised from 22.86)	ACUITE BBB / Negative (Reaffirmed; Outlook revised from Stable)
Term Loan – II	June, 2016	12.00%	June, 2023	1.18 (Revised from 1.51)	ACUITE BBB / Negative (Reaffirmed; Outlook revised from Stable)
Term Loan – III	July, 2018	9.25%	April, 2025	29.97 (Revised from 33.38)	ACUITE BBB / Negative (Reaffirmed; Outlook revised from Stable)
Term Loan – IV	July, 2018	9.25%	June, 2025	8.80 (Revised from 9.72)	ACUITE BBB / Negative (Reaffirmed; Outlook revised from Stable)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.75	ACUITE A3+ (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	26.29 (Revised from 15.28)	ACUITE BBB / Negative (Reaffirmed; Outlook revised from Stable)

*Consists sub-limits of LC of Rs.7.50 crore, PC/PSC/PCFC/PSFC/FBD/FBP of Rs.10.00 crore

**Consists sub-limits of PCFC of Rs.4.50 crore, PSL (Post-Shipments Limit) of Rs.4.50 crore, LC of Rs.4.50 crore

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About Acuité Ratings & Research:

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