

## Press Release

J B Ecotex LLP

March 14, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	132.75	ACUITE BBB   Stable   Reaffirmed   Negative to Stable	-
Bank Loan Ratings	3.75	-	ACUITE A3+   Reaffirmed
Total Outstanding Quantum (Rs. Cr)	136.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

## 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 'Stable' from 'Negative'.

### Rationale for revision in Outlook and rating Reaffirmation

The revision in outlook to stable from negative is on account of increased scale of operations in FY2022 and expected improvement in liquidity profile going forward. The company is expecting to generate a revenue of Rs.450 Cr. in FY2022 and it has already achieved Rs.345 Cr until December, 2021. Further, the rating derives a comfort from experience of its promoters and long track record of operations. However, above mentioned strengths are partly offset by moderate financial risk profile and high competitive nature of the industry.

### About the Company

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

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. 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. The firm has already achieved a healthy revenue of Rs 345 crores till December 2021 and are expecting to close this fiscal year with healthy revenue growth.

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

- **Moderate working capital requirements**

JBEL's working capital operations are moderate marked by Gross Current Assets (GCA) of 107 days in FY2021 as against 92 days in FY2020. GCA days are majorly comprises of inventory holding period and debtors' collection period. The inventory holding period stood at 48 days in FY2021 as against 41 days in FY2020, while the Debtors collection period stood at 61 days in FY2021 as against 48 days in FY2020. Similarly, creditors' payment period stood at 50 days in FY2021. The fund based working capital limits remain utilised at an average of ~76 percent for last 6 months ending January 2022.

## **Weaknesses**

- **Moderate financial risk profile**

JBEL's financial risk profile stands moderate marked by fluctuating capital structure and moderate coverage indicators. JBEL has aggressive financial policy as reflected in its Gearing (Debt to Equity) of 2.42 times as on March 31, 2021 as against 2.45 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 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 2.89 times and 4.99 times respectively as on March 31, 2021 as against 2.97 times and 4 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 that has impacted the financial risk profile. The Interest Coverage Ratio (ICR) has deteriorated on a Y-O-Y basis. The Interest Coverage Ratio (ICR) was 1.99 times in FY2021 as against 2.46 times in FY2020, whereas the Debt-Service Coverage Ratio (DSCR) has improved to 1.97 times in FY2021 as against 1.21 times in FY2020. The NCA/TD (Net Cash Accrual to Total Debt) stood at 0.10 times in FY2021 as against 0.13 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.

- **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.

### **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

### **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.13.90 Cr vis-à-vis its maturing debt obligations of Rs.15 Cr in FY2021 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 FY2022-23 period against debt repayment obligations of ~Rs.25-30 Cr during the same period. The average utilisation of fund based working capital limits remained highly utilised at approximately 76 percent for the trailing 6 month period until January 2022, while the non-fund based facilities remain utilised at ~3.73 percent. The company maintained unencumbered cash and bank balances of Rs.0.07 crore as on March 31, 2021 while the current ratio of the company stood moderate at 1.4 times as on March 31, 2021.

### **Outlook: Stable**

Acuité has revised the outlook to stable and believes that the credit profile of JBEL will remain stable on the back of improvement in operating performance and established track record and experience of partners. The outlook may be revised to 'Positive' 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. Conversely, the outlook may be revised to 'Negative' in case of a slowdown in the operating performance and significant deterioration in debt profile and elongation of working capital cycle.

## Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	290.26	365.90
PAT	Rs. Cr.	4.22	10.38
PAT Margin	(%)	1.45	2.84
Total Debt/Tangible Net Worth	Times	2.42	2.45
PBDIT/Interest	Times	1.99	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>
- 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
11 May 2021	Cash Credit	Long Term	40.00	ACUITE BBB   Negative (Reaffirmed)
	Term Loan	Long Term	16.51	ACUITE BBB   Negative (Reaffirmed)
	Term Loan	Long Term	29.97	ACUITE BBB   Negative (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE BBB   Negative (Reaffirmed)
	Term Loan	Long Term	1.18	ACUITE BBB   Negative (Reaffirmed)
	Term Loan	Long Term	8.80	ACUITE BBB   Negative (Reaffirmed)
	Proposed Bank Facility	Long Term	26.29	ACUITE BBB   Negative (Reaffirmed)
	Bank Guarantee	Short Term	3.75	ACUITE A3+ (Reaffirmed)
12 Feb 2020	Cash Credit	Long Term	40.00	ACUITE BBB   Stable (Upgraded from ACUITE BBB- )
	Term Loan	Long Term	33.38	ACUITE BBB   Stable (Upgraded from ACUITE BBB- )
	Bank Guarantee	Short Term	3.75	ACUITE A3+ (Upgraded from ACUITE A3)
	Term Loan	Long Term	22.86	ACUITE BBB   Stable (Upgraded from ACUITE BBB- )
	Cash Credit	Long Term	10.00	ACUITE BBB   Stable (Upgraded from ACUITE BBB- )
	Term Loan	Long Term	9.72	ACUITE BBB   Stable (Upgraded from ACUITE BBB- )
	Term Loan	Long Term	1.51	ACUITE BBB   Stable (Upgraded from ACUITE BBB- )
	Proposed Bank Facility	Long Term	15.28	ACUITE BBB   Stable (Upgraded from ACUITE BBB- )
08 Jul 2019	Cash Credit	Long Term	10.00	ACUITE BBB- (Issuer not co-operating*)
	Proposed Bank Facility	Long Term	1.89	ACUITE BBB- (Issuer not co-operating*)
	Term Loan	Long Term	41.52	ACUITE BBB- (Issuer not co-operating*)
	Term Loan	Long Term	36.14	ACUITE BBB- (Issuer not co-operating*)
	Cash Credit	Long Term	30.00	ACUITE BBB- (Issuer not co-operating*)
	Term Loan	Long Term	2.00	ACUITE BBB- (Issuer not co-operating*)
	Term Loan	Long Term	11.75	ACUITE BBB- (Issuer not co-operating*)
	Bank Guarantee	Short Term	3.20	ACUITE A3 (Issuer not co-operating*)
	Cash Credit	Long Term	10.00	ACUITE BBB-   Stable (Assigned)
	Term Loan	Long Term	41.52	ACUITE BBB-   Stable (Assigned)
		Long		

08 May 2018	Term Loan	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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	3.75	ACUITE A3+   Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB   Stable   Reaffirmed   Negative to Stable
Cosmos Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE BBB   Stable   Reaffirmed   Negative to Stable
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	26.29	ACUITE BBB   Stable   Reaffirmed   Negative to Stable
Cosmos Bank	Not Applicable	Term Loan	01-11-2014	13.00	31-10-2022	16.51	ACUITE BBB   Stable   Reaffirmed   Negative to Stable
Cosmos Bank	Not Applicable	Term Loan	01-06-2016	12.00	30-06-2023	1.18	ACUITE BBB   Stable   Reaffirmed   Negative to Stable
HDFC Bank Ltd	Not Applicable	Term Loan	01-07-2018	9.25	30-04-2025	29.97	ACUITE BBB   Stable   Reaffirmed   Negative to Stable
HDFC Bank Ltd	Not Applicable	Term Loan	01-07-2018	9.25	30-06-2025	8.80	ACUITE BBB   Stable   Reaffirmed   Negative to Stable



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### About Acuité Ratings & Research

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