

Press Release

Jolly Spinning Mills Private Limited

July 04, 2018



Rating Assigned

| | |
|-------------------------------------|-------------------------------|
| Total Bank Facilities Rated* | Rs. 47.00 Cr. |
| Long Term Rating | ACUITE BBB- / Outlook: Stable |
| Short Term Rating | ACUITE A3 |

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' (**read as ACUITE BBB minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the Rs. 47.00 crore bank facilities of Jolly Spinning Mills Private Limited. The outlook is '**Stable**'.

Part of the Jolly Group, Jolly Spinning Mills Private Limited, was incorporated in 2013 by Mr. Ramzan Vajirali Halani and Mr. Chirag Bharatkumar Sejpal is engaged in the spinning of cotton yarn at Gujarat. The group consists of two other companies viz. Jolly Enterprise and Jolly Spinners Private Limited that are engaged in cotton ginning, trading and export of cotton Bales & Yarn.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

The group has established operational track record of more than two decades. This has helped maintain long standing relations with customers and suppliers. The group also benefits from its experienced promoters, Mr. Ramzan Vajirali Halani and Mr. Chirag Bharatkumar Sejpal, who collectively possess around three decades of experience in the cotton business.

- **Comfortable financial risk profile and liquidity profile**

The group has a comfortable financial risk profile marked by net worth of Rs.37.85 crore as on 31 March, 2017 compared to Rs.35.79 crore as on 31 March, 2016. The gearing stood at 1.89 times as on 31 March, 2017 as against 2.11 times as on 31 March, 2016. This is on account of repayment of debt. The total debt of Rs.71.40 crore comprises term loan of Rs.37.37 crore from bank, interest bearing unsecured loans from related parties of Rs.1.61 crore and working capital funds of Rs.32.42 crore as on 31 March, 2017. The Interest Coverage Ratio (ICR) stood at 3.33 times in FY2017 as against 3.29 times in FY2016. This is mainly due to improvement in profitability in FY2017. The net cash accruals stood at Rs.11.86 crore as against repayment obligation of Rs.5.89 crore in FY2017. The operating cycle of the company is comfortable as the Gross Current Asset (GCA) days stood at 71 for FY2017 as against 102 for FY2016. However, the company maintains comfortable liquidity profile. Going forward, Acuité expects the company to maintain its financial risk profile and improve its networth in the absence of major debt funded capex plan.

- **Proximity to raw materials**

The group has its operations in Gujarat, one of the major cotton producing regions in India. Hence, the company benefits from proximity to raw materials.

Weaknesses

- **Volatility in raw material prices and government regulations**

Cotton prices are highly regulated by the government through MSP (Minimum Support Price). However, the purchase and selling prices depend on the prevailing demand-supply situation restricting bargaining power with suppliers and customers. Any adverse movement of cotton prices further impacts profitability. Acuité believes that JSPL should be able to maintain its operating profitability around existing levels, notwithstanding the volatility in prices of its key inputs, on the back of its established position in the domestic as well as foreign market.

• Agro climatic risks

Cotton is a seasonal crop and the production of the same is highly dependent upon the monsoon. Thus, inadequate rainfall may affect the availability of cotton in adverse weather conditions.

• Intense competition in the textile industry

The group is exposed to intense competition in highly fragmented textile industry. The company also faces stiff competition from organised and unorganised players in the domestic market and also from other nations wherein production costs are lower, offering cheaper labour and ease of-doing business.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of Jolly Spinners Private Limited, Jolly Enterprise and Jolly Spinning Mills Private Limited together referred to as the 'Jolly Group' to arrive at the rating. The consolidation is in view of the similarities in the lines of business, operational and financial synergies and common management.

Outlook: Stable

Acuité believes that the group will maintain a 'Stable' outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the company registers significant growth in its revenue and profitability while maintaining comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' in case of stretched working capital cycle or deterioration in its financial risk profile due to higher than expected debt funded capex plan.

About the Group

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About the Rated Entity - Key Financials

| | Unit | FY17 (Actual) | FY16 (Actual) | FY15 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 382.04 | 243.88 | 165.98 |
| EBITDA | Rs. Cr. | 15.85 | 15.07 | 9.42 |
| PAT | Rs. Cr. | 4.15 | -0.41 | 1.20 |
| EBITDA Margin | (%) | 4.15 | 6.18 | 5.68 |
| PAT Margin | (%) | 1.09 | -0.17 | 0.72 |
| ROCE | (%) | 7.39 | 5.93 | 10.61 |
| Total Debt/Tangible Net Worth | Times | 1.89 | 2.11 | 1.95 |
| PBDIT/Interest | Times | 3.33 | 3.29 | 2.22 |
| Total Debt/PBDIT | Times | 4.46 | 4.98 | 7.27 |
| Gross Current Assets (Days) | Days | 71 | 102 | 132 |

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-22.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***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 | Not Applicable | Not Applicable | Not Applicable | 16.00 | ACUITE BBB- / Stable |
| Term loans | Not Applicable | Not Applicable | Not Applicable | 28.50 | ACUITE BBB- / Stable |
| Bank guarantee/Letter of Guarantee | Not Applicable | Not Applicable | Not Applicable | 2.50 | ACUITE A3 |

Contacts

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About Acuité Ratings & Research:

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