

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

Acuite 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 Bhartkumar Sejal 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 Bhartkumar Sejal, 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, Acuite 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. Acuite 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

Acuite 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

Acuite 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

Acuite 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.

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

Analytical	Rating Desk
Suman Chowdhury President - Rating Operations Tel: 022-67141107 suman.chowdhury@acuite.in Aishwarya Phalke Analyst - Rating Operations Tel: 022-67141156 aishwarya.phalke@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 6,000 credit 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 Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.