

Press Release

Jayanthi Textile Products

19 March 2020

Rating Upgrade



Total Bank Facilities Rated*	Rs. 40.00 Cr.
Long Term Rating	ACUITE BBB+/Stable (Upgrade)
Short Term Rating	ACUITE A2 (Upgrade)

* Refer Annexure for details

Rating Rationale

Acuite has upgrade the long- term rating to '**ACUITE BBB+**' (read as **ACUITE BBB plus**) from '**ACUITE BBB**' (read as **ACUITE BBB**) and short-term rating to '**ACUITE A2**' (read as **ACUITE A two**) from '**ACUITE A3+**' (read as **ACUITE A three plus**) to the Rs.40 crore of bank facilities of Jayanthi Textile Products (JTP). The outlook is 'Stable'.

The rating upgrade is driven by the improvement in their liquidity position and financial risk profile. The improvement in liquidity is reflected in the firm's low utilization of bank limits coupled with scheduled debt repayments. The financial risk profile improvement includes increase in network, reduction in gearing levels and improvement in debt protection measures.

JTP was established in 1990, and is a part of Jayanthi group. JTP is engaged in spinning and weaving of carded and combed cotton into yarn and grey fabrics. The plant is based out of Coimbatore (Tamil Nadu) with total capacity of 36800 spindles and 82-air jet looms. Additionally, JTP possesses 5 windmills with a total capacity of 4.75 MW per annum.

Analytical Approach:

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

Key Rating Drivers:

Strengths

Experience Management and long track record of operations

The partners of the firm Mr. C M Lakshmanamoorthy and Mr. C M Senthilkumar have two decades of experience in textile business. The offers a varied range of yarn and fabric products, which includes carded, combed and combed compact yarn in the range of 40s to 80s used in the production of Cone and Greige fabrics. The long experience of the partners has enabled them to establish comfortable relationships with their customers and expand their customer base steadily. This also reflects from the low customer concentration with their top 10 customers contributing to only 35 percent of their revenues in FY19.

Comfortable financial risk profile

The financial risk profile of JTP is comfortable marked by modest net worth, low gearing and strong debt protection metrics. The net worth of the firm stands at Rs.50.86 crore in FY2019 as compared to Rs.43.54 crore in FY2018. This improvement in Networth is mainly due to retention of current year profit. The gearing of the firm stands at 0.42 times as on March 31, 2019 when compared to 0.71 times as on March 31, 2018. The total debt of Rs.21.42 crore in FY2019 consists of short-term loan of Rs.11.84 crore, long-term debt of Rs.9.58 crore. Interest coverage ratio (ICR) had improved to 6.33 times during FY2019 as against 5.16 times in FY 2018 due to decline in financial cost. The reduction in interest cost was due to scheduled repayment of term loans and low utilization of fund based limits. The debt service coverage ratio (DSCR) stood at 2.88 times in FY2019. The net cash accruals against total debt (NCA/TD) stand at 0.59 times in FY19 as against 0.40 times in FY18. Acuite believes the financial risk profile of the firm will improve further over the medium term driven by

steady accruals and no major debt funded capex plans.

Improvement in Scale of operation

The firm had witnessed improvement in scale of operation during FY19 driven by sale volume of yarn and fabric products. Revenue of the firm had improved to Rs 127.98 crores as against Rs 117.00 crores in FY18. Firm has already booked a revenue of Rs104.56 crores till December 2019 (Provisional).

Weaknesses

Vulnerable to raw material fluctuation risk

Firm is vulnerable to volatility in raw cotton prices. Since raw cotton is a regulated commodity and its minimum support price (MSP) is fixed by the government. In any year when the price of cotton falls below MSP, farmers tend to sell the produce to government agencies such as Cotton Corporation of India and National Agricultural Cooperative Marketing Federation of India, and hence, the availability of cotton in the open market goes down.

Rating Sensitivity

- Sustenance of revenue growth while maintaining profitability
- Deterioration in liquidity profile

Material Covenant

None

Liquidity Position: Adequate

Firm has adequate liquidity profile as reflected from 63 percent average utilization of fund based working capital utilization during 12 month ended January 2020. In addition, company's net cash accrual stood at Rs 12.72 crores in FY19 as against current maturity of Rs. 2.93 crores. Current ratio stood at 1.57 times in FY19 as against 1.25 times in FY18. Acuite believes liquidity profile will remain adequate in medium term backed by absence of large debt led capex plan and healthy net cash accrual.

Outlook: Stable

Acuite believes that JTP will maintain a 'Stable' outlook over the medium term from its promoters' industry experience and comfortable financial risk profile. The outlook may be revised to 'Positive' in case of significant growth in its revenues while improving its profitability. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital operations or any decline in operating revenue.

About the Rated Entity - Consolidated

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	127.98	117.00
PAT	Rs. Cr.	12.72	12.31
PAT Margin	(%)	8.17	7.70
Total Debt/Tangible Net Worth	Times	0.42	0.71
PBDIT/Interest	Times	6.33	5.16

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-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings / Outlook
25- February- 2019	Cash Credit	Long term	22.00	ACUITE BBB / Stable (Assigned)
	Term Loan	Long term	10.77	ACUITE BBB / Stable (Assigned)
	Bank facilities	Long term	1.94	ACUITE BBB / Stable (Assigned)
	Packing credit	Short Term	3.00	ACUITE A3+ (Assigned)
	Bank Guarantee	Short term	2.29	ACUITE A3+ (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	22.00	ACUITE BBB+ / Stable (Upgraded)
Term Loan	Not Applicable	Not Applicable	December 2020- 2022	7.94	ACUITE BBB+ / Stable (Upgraded)
Bank facilities	Not Applicable	Not Applicable	Not Applicable	5.12	ACUITE BBB+ / Stable (Upgraded))
Packing credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A2 (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.94	ACUITE A2 (Assigned)

Contacts:

Analytical	Rating Desk
Pooja Ghosh Head- Corporate and Infrastructure Sector Ratings Tel: 033-66201203 pooja.ghosh@acuite.in Tonoy Banerjee Rating Analyst Tel: 033-66201206 tonoy.banerjee@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

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