

## Press Release

### Jayanthi Textile Products

April 22, 2021

### Rating Withdrawn



|                                     |                            |
|-------------------------------------|----------------------------|
| <b>Total Bank Facilities Rated*</b> | Rs. 40.00 Cr.              |
| <b>Long Term Rating</b>             | ACUITÉ BBB+<br>(Withdrawn) |
| <b>Short Term Rating</b>            | ACUITÉ A2<br>(Withdrawn)   |

\* Refer Annexure for details

### Rating Rationale

Acuite has withdrawn the long-term rating of '**ACUITÉ BBB+**' (read as **ACUITÉ BBB Plus**) and short term rating of '**ACUITÉ A2**' (read as **ACUITÉ A two**) on the Rs.40.00 crore bank facilities of Jayanthi Textile Products(JTP). The rating is being withdrawn on account of request received from the firm and NOC received from the banker as per Acuite's withdrawal policy.

The ratings reflect JTP's healthy business risk profile marked by the firm's long track record of operations and presence along the textile value chain. The ratings also take into account the comfortable financial risk profile marked by moderate networth base, low leverage and strong debt protection metrics. These credit strengths are partly offset by volatile profitability margin.

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 taken a standalone view of business and financial risk profile of JTP to arrive at this rating.

### Key Rating Drivers

#### Strengths

#### 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 entity 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 34 percent of their revenues in FY20.

#### 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 stood at Rs.52.70 Cr in FY2020 as compared to Rs.50.86 Cr in FY2019. This improvement in net worth is mainly due to retention of current year profit. The gearing of the firm stood low at 0.39 times as on March 31, 2020 when compared to 0.42 times as on March 31, 2019. The total debt of Rs.20.71 Cr in FY2020 consists of short-term loan of Rs.14.86 Cr and long-term debt of Rs.5.65 Cr. The net cash accruals against total debt (NCA/TD) stood at 0.42 times in FY20 as against 0.59 times in FY19. Interest coverage ratio (ICR) stood strong at 5.32 times during FY2020 as against 6.33 times in FY 2019. The debt service coverage ratio (DSCR) stood at 2.21 times in FY2020. 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.

#### Prudent working capital requirement

Firm has efficient working capital requirement as reflected from as GCA days stood at 90 days in FY20 as

against 96 days in FY19. Reason for improvement is decline in inventory days to 28 days in FY20 as against 45 days in FY19. Debtor days stood at 48 days in FY20 as against 38 days in FY19. The firm is likely to witness modest working capital requirement over the medium term.

## Weaknesses

### Decline in profit margin

The firm has moderate profitability margins both at the operating and net level. The operating margin of the firm stood at 7.25 percent in FY20 as compared to 11.30 percent in FY19. The firm's operating margin witnessed a decline in FY20 driven by the rise in raw material cost which could not be entirely passed on to the customer. However firm posted EBITDA margin of about 12.90 percent during 9MFY21 (Provisional). Acuite believes that the firm will maintain modest profit margins over the medium term.

### 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

NA

### Material Covenant

None

### Liquidity Profile: Adequate

The firm has an adequate liquidity profile as reflected from its net cash accrual of Rs 8.76 Cr. in FY20 as against the current maturity of Rs 2.93 Cr. Going forward, the net cash accruals are expected to be in the range of Rs 9-10 Cr as against the current maturity of around Rs 1.7 Cr from FY21-FY23. The working capital utilization during 12 months ended January 2021 stood at around 48 percent. Current ratio stood comfortable at 1.54 times in FY20. Moreover, the firm has a prudent working capital requirement as GCA days stood at 90 days in FY20 as against 96 days in FY19. Acuite believes liquidity profile will remain adequate in medium term backed by healthy cash accrual.

### Outlook: Stable

Acuite believes that the outlook on the JTP will remain 'Stable' over the medium term on account of the established presence and extensive experience of the partner in the textile industry. The outlook may be revised to 'Positive' in case the firm registers significant revenue growth along with improvement in profitability margin. 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 Rated Entity - Key Financials

|                               | Unit    | FY20 (Actual) | FY19 (Actual) |
|-------------------------------|---------|---------------|---------------|
| Operating Income              | Rs. Cr. | 148.12        | 127.28        |
| PAT                           | Rs. Cr. | 5.68          | 10.47         |
| PAT Margin                    | (%)     | 3.83          | 8.22          |
| Total Debt/Tangible Net Worth | Times   | 0.39          | 0.42          |
| PBDIT/Interest                | Times   | 5.32          | 6.33          |

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

Not Applicable

### Any other information

Not Applicable

### 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               |
|-----------------|---------------------------------|------------|------------------|---------------------------------|
| 19 March 2020   | Cash Credit                     | Long Term  | 22.00            | ACUITE BBB+ / Stable (Upgraded) |
|                 | Term Loan                       | Long Term  | 7.94             | ACUITE BBB+ / Stable (Upgraded) |
|                 | Bank Facilities                 | Long Term  | 5.12             | ACUITE BBB+ / Stable (Upgraded) |
|                 | Packing Credit                  | Short Term | 3.00             | ACUITE A2 (Assigned)            |
|                 | Bank Guarantee                  | Short Term | 1.94             | ACUITE A2 (Assigned)            |
| 25-February2019 | 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+ (Withdrawn) |
| Term Loan              | Not Available    | Not Available  | December 2022  | 7.94              | ACUITE BBB+ (Withdrawn) |
| Bank Facilities        | Not Applicable   | Not Applicable | Not Applicable | 5.12              | ACUITE BBB+ (Withdrawn) |
| Packing Credit         | Not Applicable   | Not Applicable | Not Applicable | 3.00              | ACUITE A2 (Withdrawn)   |
| Bank Guarantee         | Not Applicable   | Not Applicable | Not Applicable | 1.94              | ACUITE A2 (Withdrawn)   |

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**About Acuite Ratings & Research:**

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