

## Press Release

**Jaydeep Cotton Fibres Private Limited**

October 22, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 149.54 Cr.
Long Term Rating	ACUITE BBB+ / Outlook: Stable (Assigned)
Short Term Rating	ACUITE A2 (Assigned)

\* Refer Annexure for details

### Rating Rationale

Acuite has assigned the long-term rating of 'ACUITE BBB+' (read as ACUITE triple B plus) and short-term rating of 'ACUITE A2' (read as ACUITE A two) on the Rs. 149.54 crore bank facilities of JAYDEEP COTTON FIBRES PRIVATE LIMITED (JCFPL). The outlook is 'Stable'.

Incorporated in 1997, JCFPL is involved in ginning and pressing of raw cotton. It is also engaged in trading of cotton bales and other agro-based commodities. To diversify its business, JCFPL has established a power unit "Pan Power" by installing a solar project at Dhamalpar in Rajkot, Gujarat. At present, the company is headed by Mr. Chirag Pan and Mr. Alpesh Pan. The factory is located at Shapar, Gujarat.

Incorporated in 1982, Pan Agri Exports (PAE) is a partnership firm engaged in manufacturing cottonseed oil, trading of raw cotton, cotton bales and other agro based commodities.

### Analytical Approach

Acuite has consolidated the business and financial risk profiles of the Jaydeep Cotton Fibres Private Limited and Pan Agri Exports together referred to as Jaycot Group to arrive at the rating. The consolidation is on account of similar line of business, common management and significant operational linkages. Extent of consolidation is full.

### Key Rating Drivers

#### Strengths

- Extensive experience of promoters in the cotton ginning industry and established market position The promoters have been in the cotton industry for more than two decades. With extensive experience, the promoters have been able to establish their presence in the industry and maintain healthy relations with their customers and suppliers. The Jaycot group has diversified business interest across various sectors such as cement, laminate manufacturing, agriculture equipment, agro-commodities trading and health sector. The extensive experience of promoters is also reflected in the healthy revenue levels, which stood at Rs. 745.25 crore in FY2019 (Provisional) against Rs. 536.84 crore in FY2018.

Acuite believes that the group will continue to benefit from its established presence and the extensive experience of management in the cotton industry.

- Moderate financial risk profile

The moderate financial risk profile of the group is marked by high tangible net worth, moderate gearing and debt protection metrics. Networth stood at Rs.117.61 crore as on March 31, 2019 (Provisional) against Rs.104.59 crore as on March 31, 2018. Networth is increasing every year due to steady accretion to reserves. Gearing has improved to 1.33 times as on March 31, 2019 (Provisional) as compared to 1.52 times in the previous year. Total debt of Rs.156.99 crore includes working capital borrowings of Rs.114.78 crore, outstanding term loans of Rs.25.90 crore and unsecured loans from directors and relatives of Rs.16.31 crore. The group has followed a moderate financial policy in the past that is reflected through its average gearing of 1.36 times during the last three years. The group's cash accruals in the range of Rs.16-22 crore have supported in minimising the reliance on external

debt, which is very well reflected in improved gearing. The cash accruals are estimated to remain in the range of Rs.25-32 crore, which will be sufficient for servicing debt obligations over the medium term. The healthy revenue levels coupled with stable operating margins have resulted in moderate debt protection metrics. Interest coverage ratio (ICR) stood at 2.62 times in FY2019 (Provisional) against 2.48 times in FY2018, while DSCR stood at 1.67 times in FY2019 (Provisional) as against 1.59 times in FY2018. Debt to EBITDA and NCA/TD have improved since last year. It stood at 4.10 and 0.14 times, respectively, in FY2019 (Provisional) against 5.49 and 0.10 times in FY2018.

Acuite believes that the financial risk profile of the Jaycot group will continue to remain moderate over the near to medium term due to healthy revenue levels, stable profitability and moderate debt protection measures.

### Weaknesses

- **Susceptibility of profitability to fluctuations in raw material prices**  
The group is exposed to risks emanating from adverse movements in cotton prices in the domestic and international markets. Acuite believes that the group's ability to pass on increase in cotton prices to the end customers shall be critical towards maintaining its credit risk profile. Adverse movements in prices on account of global demand - supply mismatches may result in downward pressure on the group's profitability margins over the near to medium term. The operating margins stood at 4.87 per cent in FY2019 (Provisional) against 51.4 per cent in FY2018.

Acuite believes that the group will maintain stable profitability due to better management of inventory and forex risk.

- **Highly competitive and fragmented industry**  
The group operates in a highly competitive cotton ginning industry with several organised and unorganised players, which limits the bargaining power.

### Rating Sensitivities

- Stretch in working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile.
- Substantial improvement in scale of operation while improving profitability margins over the near to medium term.

### Material Covenants

None

### Liquidity Position:

The group has adequate liquidity marked by net cash accruals in the range of Rs.16-22 crore against maturing debt obligations in the range of Rs.5-7 crore during the last three years. The working capital operations are moderate as marked by gross current asset (GCA) days of 108 in FY2019 (Provisional) as compared to 148 days in FY2018. The cash credit limit remained utilized at ~76 per cent during the last six months period ended June 2019. The unencumbered cash and bank balances stood at Rs.1.91 crore as on March 31, 2019 (Provisional). The current ratio stood at 1.75 times as on March 31, 2019 (Provisional). Acuite believes that the liquidity of the group is likely to remain adequate over the medium term on account increasing net cash accruals against maturing repayment obligations and moderate nature of working capital operations.

### Outlook: Stable

Acuite believes that the group will continue to maintain a 'Stable' outlook over near to medium term, owing to its established market position and experienced management. The outlook may be revised to 'Positive' in case the group achieves sustained growth in revenues and higher-than-expected improvement in profitability, working capital management and debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of significant decline in revenues and operating profit margins, or deterioration in the capital structure and liquidity position on account of higher-than-expected working capital requirements.

### About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	745.25	536.84	541.60
EBITDA	Rs. Cr.	36.28	27.59	32.34
PAT	Rs. Cr.	16.07	10.16	15.80
EBITDA Margin	(%)	4.87	5.14	5.97
PAT Margin	(%)	2.16	1.89	2.92
ROCE	(%)	11.69	8.94	12.44
Total Debt/Tangible Net Worth	Times	1.33	1.52	1.23
PBDIT/Interest	Times	2.62	2.48	3.19
Total Debt/PBDIT	Times	4.10	5.49	3.62
Gross Current Assets (Days)	Days	108	148	108

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing entities - <http://acuite.in/view-rating-criteria-4.htm>
- Trading entities - <http://acuite.in/view-rating-criteria-6.htm>
- Consolidation of companies - <http://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	82.00 <sup>^</sup>	ACUITE BBB+ / Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	3.04	ACUITE BBB+ / Stable (Assigned)
Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB+ / Stable (Assigned)
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	10.00 <sup>#</sup>	ACUITE A2 (Assigned)
Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	29.50	ACUITE A2 (Assigned)

<sup>^</sup> CC limits are interchangeable with EPC / PCFC / FBD. It also includes sub limit of Bank Guarantee Rs.5 crores and letter of credit Rs.30 crores.

<sup>#</sup> Includes sublimit of LC Rs.6.50 crores.

## Contacts

Analytical	Rating Desk
<b>Aditya Gupta</b> Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 <a href="mailto:aditya.gupta@acuited.in">aditya.gupta@acuited.in</a>	<b>Varsha Bist</b> Manager - Rating Desk Tel: 022-49294011 <a href="mailto:rating.desk@acuited.in">rating.desk@acuited.in</a>
<b>Rishabh Mundada</b> Analyst - Rating Operations Tel: 022-49294033 <a href="mailto:rishabh.mundada@acuited.in">rishabh.mundada@acuited.in</a>	

### About Acuite Ratings & Research:

Acuite 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 Acuite 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. Acuite 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, Acuite, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuite 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. Acuite 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.acuited.in](http://www.acuited.in)) for the latest information on any instrument rated by Acuite.