

Press Release

J B Khokhani and Company

November 12, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs.25.00 Cr.
Short Term Rating	ACUITE A3 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the short term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the Rs.25.00 crore bank facilities of J B Khokhani and Company (JBK).

About Company

J. B. Khokhani & Co. (JBK) is a Mumbai based partnership firm, established in 1965 by Mr. J B Khokhani. The firm is now managed and promoted by Mr. Mahesh J Khokhani, Mr. Mehul J Khokhani and Mr. Dinesh J Khokhani. The firm is engaged in trading of API & Finished Formulation, Nutraceuticals Supplier, Exports, and Indenting House.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of JBK to arrive at the rating.

Key Rating Drivers

Strengths

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

JBK is a partnership firm established in the year 1965 and has established the presence of over 5 decades in the industry. The firm is promoted by Mr. Mahesh J Khokhani, Mr. Mehul J Khokhani and Mr. Dinesh J Khokhani, who possess over 3 decades of experience in the industry. The extensive experience of the promoters and the established presence of the firm has helped in maintaining healthy relations with customers.

Acuité believes that the firm will benefit from its experienced management, long-standing relations with customers over the medium term.

- **Moderate financial risk profile**

The firm's financial risk profile is marked by moderate net worth, modest gearing (debt-equity) and debt protection metrics. The tangible net worth of the firm stood at Rs.24.28 crore as on 31 March, 2020 (Provisional) as against Rs.11.77 crore as on 31 March, 2019. The total debt of the firm as on 31 March, 2020 (Provisional) consist of unsecured loan from promoters of Rs.37.97 crore. The gearing (debt-equity) stood at 1.56 times as on 31 March, 2020 (Provisional) as compared to 1.78 times as on 31 March, 2019. The Interest Coverage Ratio stood comfortable at 2.33 times for FY2020 (provisional) as against 3.30 times for FY2019. Total Outside Liabilities/Total Net Worth (TOL/TNW) stood high at 4.47 times as on 31 March, 2020 (Provisional) as against 4.62 times as on 31 March, 2019. Net Cash Accruals to Total Debt (NCA/TD) also stood at 0.20 times for FY2020 (Provisional). Debt Service Coverage Ratio (DSCR) stood at 2.33 times in FY2020 (Provisional) as against 3.30 times in FY2019.

Acuité believes that the financial risk profile of the firm will continue to remain moderate over the medium term on account of conservative financial policy.

- **Improvement in the scale operation and profitability margins**

The firm has an improvement in scale of operations marked by revenue of Rs.247.52 crore in FY2020 (Provisional) as against Rs.198.36 crore in FY2019. The revenue has increased by ~24.78 percent in FY2020 (Provisional) from the previous year and is growing at a compounded annual growth rate of over ~22.19 percent since 2017. Also, there is a growth in the operating margins, which stood at 5.17 percent in FY2020 (Provisional) as against 3.40 percent in FY2019. PAT margin has improved and stood at 3.03 percent in FY2020 (Provisional) as against 2.79 percent in FY2019.

Weaknesses

- **Intensive working capital cycle**

The firm has an intensive working capital cycle marked by Gross Current Assets (GCA) days of 184 days in FY2020 (Provisional) and 107 days in FY2019. The receivable days stood at 154 days in FY2020 (Provisional) as against 109 days in FY2019. The inventory days stood at 18 days in FY2020 (Provisional) as against 19 days in FY2019.

Acuité believes that efficient working capital management will be crucial to the firm in order to maintain a healthy risk profile.

- **Competitive and fragmented industry**

JBK operates in the chemical industry, which is marked by the presence of several mid to big size players in the organised as well as unorganised sector, which limits the pricing power of JBK. However, this risk is mitigated to an extent as the management has been operating in this industry for the last five decades.

- **Risk of capital withdrawal**

JBK is exposed to the risk of capital withdrawal considering its partnership constitution. Any significant withdrawal from the partner's capital will have a negative bearing on the financial risk profile of the firm.

Rating Sensitivities

- Sustaining existing scale of operations while maintaining profitability.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.
- Any deterioration of its financial risk profile.

Material Covenants

None

Liquidity Position: Adequate

JBK has an adequate liquidity position marked by moderate net cash accruals against no repayment obligations. JBK generated cash accruals of Rs.3.00-7.80 crore during the last three years through 2018-20. The working capital cycle of the firm is intensive, marked by Gross Current Assets (GCA) days of 184 days in FY2020 (Provisional) and 107 days in FY2019. JBK maintained unencumbered cash and bank balances of Rs.3.47 crore as on March 31, 2020 (Provisional). The current ratio of JBK stood at 1.85 times as on March 31, 2020 (Provisional). Acuité believes that the liquidity of JBK is likely to remain adequate over the medium term.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	247.52	198.36
PAT	Rs. Cr.	7.49	5.54
PAT Margin	(%)	3.03	2.79
Total Debt/Tangible Net Worth	Times	1.56	1.78
PBDIT/Interest	Times	2.33	3.30

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

Not Applicable

Any other information

None.

Applicable Criteria

- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.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)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Name of the Bank	Ratings/Outlook
Letter of Credit#	Not Applicable	Not Applicable	Not Applicable	25.00	Yes Bank	ACUITE A3 (Assigned)

#includes sublimit of cash credit of Rs.5.00 crore, Working Capital Demand Loan of Rs.5.00 crore, Pre Shipment Credit of Rs.5.00 crore, Post Shipment Credit of Rs.5.00 crore, FCNR (B) Loan of Rs.5.00 crore, Purchase invoice financing of Rs.5.00 crore, Financial BG/SBLC for Import of Rs.5.00 crore, Import Bill in FCY of Rs.5.00 crore, Bank Guarantee: Financial/Performance/Bid-Bond (INR/FCY) of Rs.2.00 crore.

Contacts

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About Acuité Ratings & Research:

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