

Press Release

J J Fine Spun Private Limited

January 27, 2021



Rating Assigned

Total Bank Facilities Rated*	Rs. 32.00 Cr.
Long Term Rating	ACUITE B-/ Outlook: Stable (Assigned)
Short Term Rating	ACUITE A4 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE B-**' (**read as ACUITE B minus**) and the short-term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs. 32.00 Cr bank facilities of J J Fine Spun Private Limited (JJFPL). The outlook is '**Stable**'.

Maharashtra-based JJJFPL was incorporated in 2010 by Mr. Nitin H Patil, Mr. Pravin G. Ingole and Mr. Sanjay Jadho. The company is engaged in the manufacturing and trading of yarn. The Company operates with the installed capacity 36,000 MT per annum.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Long track record of operations and experienced management**

Incorporated in 2010, JJJFPL is headed by Mr. Nitin H Patil, Mr. Pravin G. Ingole and Mr. Sanjay Jadho all of whom are industry veterans having around two decades of experience in the textile industry. The top management of the company is backed by equally experienced second line of management. Led by the experienced promoters and due to repeated orders from the customers the company has managed to achieve a stable scale of operations for the period of FY2018-20 with a turnover of Rs. 55.02 Cr in FY2018, Rs. 58.00 Cr in FY2019 and Rs. 53.17 Cr in FY2020, respectively.

Acuité believes that the company will continue to benefit from the promoter's established presence in the industry over the medium term.

Weaknesses

- **Average financial risk profile**

The company has an average financial risk profile marked by average net-worth, high gearing and average debt protection metrics. The net worth stood at Rs.18.03 Cr as on 31 March, 2020 as against Rs.15.64 Cr as on 31 March 2019. The debt service coverage ratio (DSCR) of the company is poor at 0.76 times in FY2020 as against 1.66 times in the previous year. JJJFPL has followed a moderately aggressive financial policy in the past the same is reflected through its peak gearing levels of 2.65 times as on March 31, 2018 while the current gearing levels stand at 1.64 times as on March 31, 2020. Further, the interest coverage ratio remained moderate at 1.59 times for FY2020 as compared to 1.71 times for FY2019. Total outside liabilities to total net worth (TOL/TNW) stood at 2.25 times as on 31 March, 2020 as against 2.65 times as on 31 March, 2019. Whereas, the net cash accruals to total debt levels stand at 0.08 times in FY2020.

- **Working capital efficient nature of operations**

The company's operations are working capital intensive in nature as reflected by the Gross Current Assets (GCA) of 140 days in FY2020 as against 107 days in FY2019. GCA days remained high mainly on account of the high inventory holding period, which is at 76 days in FY2020. The debtor collection period stood at 5

days in FY2020 as against 7 days in FY2019. Further, the creditor collection period stood at around 43 days in FY2020 as against 29 days in the previous year. Additionally, the bank limit utilization of the company has remained high at around 100 percent in the last 6 months ending on December 2020. Acuité believes that the working capital management will continue to remain intensive over the medium term on account of moderately high levels of inventory maintained by the company.

- **Delays in the servicing of term loan and statutory dues**

The COVID pandemic has heavily impacted the company, which has resulted in hampering of operations and therefore leading to difficulties in maintaining the scale of operations. Consequently, the company has only procured a revenue of ~Rs. 15.00 Cr up till November 2020 which has led to challenges like delays in timely servicing of regulatory dues and servicing of term loan principal and interest. JJFPL has not paid various statutory dues like Employee State Insurance and Employee Provident Fund for more than 6 months. Further, the company has also remained irregular in the timely repayment of the term loan principal for over 2 months.

Rating Sensitivities

- Significant improvement in scale of operations, while maintaining profitability margins
- Deterioration in working capital cycle leading to deterioration of financial risk profile and liquidity

Liquidity Position: Stretched

The company has stretched liquidity marked by low net cash accruals to maturing debt obligations. JJFPL generated cash accruals of Rs. 2.33 Cr for FY2020 against maturing debt obligations of Rs. 4.42 Cr in the same period. The cash accruals of the company are estimated to remain in the range of around Rs. 0.00 Cr to Rs. 3.40 Cr during 2021-23 against repayment obligations in the range of Rs. 4.48-4.23 Cr in the same period. The company's working capital operations are intensive marked by Gross Current Asset (GCA) of 140 days for FY2020. The company maintains cash and bank balances of Rs. 0.75 Cr as on 31 March, 2020. The current ratio stood poor at 0.88 times as on 31 March, 2020. Acuité believes that the liquidity of the company is likely to remain stretched over the medium term on account of low cash accrual against maturing debt repayments over the medium term.

Outlook: Stable

Acuité believes that JJFPL will maintain a 'Stable' outlook over the medium term on the back of its experienced management. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected growth in its revenue and profitability while improving its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in case of deterioration in the firm's financial risk profile or significant elongation in the working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	53.17	58.00
PAT	Rs. Cr.	0.38	0.47
PAT Margin	(%)	0.71	0.81
Total Debt/Tangible Net Worth	Times	1.64	2.13
PBDIT/Interest	Times	1.59	1.71

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

Brickwork Ratings, vide its press release dated October 23, 2020 has denoted the rating of J J Fine Spun Private Limited as 'BWR D; Downgraded, Issuer Not Cooperating' on account of lack of adequate information required to monitor the ratings

Any Material Covenants

None

Any other information

Not Applicable

Applicable Criteria

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

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	6.60	ACUITE B-/ Stable (Assigned)
Term Loans	Not Available	Not Available	Not Available	22.90	ACUITE B-/ Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE A4 (Assigned)

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About Acuité Ratings & Research:

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