Press Release

Jagatjit Industries Limited

January 06, 2023

Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	200.00	ACUITE B+ | Stable | Downgraded	-
Total Outstanding Quantum (Rs. Cr)	200.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has downgraded the long-term rating from "**ACUITE BB-**(read as **ACUITE double B minus**)" to "**ACUITE B+** (read as **ACUITE B Plus**)" on the Rs. 200 Cr. bank facilities of JAGATJIT INDUSTRIES LIMITED. The outlook is '**Stable**'.

Rationale for Rating:

Acuite takes into account the experience of the promoters in the Alco Bev Industry. The company has a wide presence in India for the sale of Indian Made Foreign Liquor (IMFL) and Country Liquor (CL) through franchise business and contract manufacturing. Jagatjit Industries Limited has been selling IMFL under the brand name Aristocrat since 1968 and thus, has a legacy of over seven decades in the said industry.

The rating positively takes into account the fact the company is having an arrangement with Hindustan Unilever (HUL) which is one of the major player in the FMCG Industry. Acuité takes into account DSRA mechanism present in its LRD term loan where the entity is maintaining an amount equivalent to 1 quarter of interest & principal repayment obligations in the form of fixed deposit. However, the company is company is having negative Operating Profit Before Tax and its reliance on the Other Income is making it a Positive PAT concern.

The rating, however, is constrained by the high tenant risk in lease rental business as the entire facility has been leased out to few tenants, though a strong tenant profile reduces the risk to some extent. Availability of new tenant for vacant space of about 60,195 sq ft i.e. 28.51% of the total area available to be leased out is also a major concern. The rise in prices of the raw material like barley has severly impacted the EBITDA margins of the company. The Debt-Equity ratio maintained at high level of 4.58 Times for the FY 22 and further the company is about to take further Term Loan Facility for an Ethanol Plant Project in the current and next financial year that will further affect the ratio.

About the Company

Jagatjit Industries Limited (JIL) was incorporated in 1944 in the state of Punjab by Mr. L.P. Jaiswal under the name of Jagatjit Distilling and Allied Industries Limited, Subsequently the name as changed to the present one. JIL is engaged in manufacturing, distributing and selling Indian Made Foreign Liquor (IMFL), Country Liquor (CL), Malted Milk Food (MMF) & Malt Extract (MEX) and managing of owned Real Estate assets. JIL sells country liquor in Punjab, has 40 IMFL brands selling across 17 States and 2 Union Territories in domestic market, and 13 countries including U.S.A., Italy and U.A.E, to name a few. Further, JIL leases out owned 2.11 LPSF area to tenants and manufactures intermediates for products manufactured by HUL.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of JIL to arrive at this rating. Further, Acuité has also considered the presence of DSRA (Debt Service Reserve Account) equivalent to 1 quarter of interest & principal repayment obligations and escrow mechanism with a well-defined waterfall mechanism, as specified in the loan sanction letter while arriving at the rating.

Key Rating Drivers

Strengths

Established presence in the domestic market:

JIL is managed by Mr. Ravi Manchanda (Managing Director), Mr. Deepankar Barat (President) along with Mr. Anil Vanjani (CEO & CFO) and Ms. Roshni Jaiswal (Promoter Family). Ms. Roshni Jaiswal belongs to a business family, which has been in the AlcoBev industry for over seven decades. The promoters are very resourceful and have supported the entity with the funding as and when required. The seven decade track record of operations in the AlcoBev and Food industry has helped JIL establish presence with entities like HUL and a geographic presence across 17 States and 2 Union Territories in domestic market, and 13 countries including U.S.A., Italy and U.A.E, to name a few.

Debt servicing supported by debt service reserve account:

JIL maintains Debt Service Reserve Account (DSRA) as per the stipulation. DSRA is equivalent to 1 quarter of interest & principal repayment obligations in the form of fixed deposits. Further, the terms of sanction for the term loan stipulate an escrow mechanism through which rent receipts are routed and used for payment as per the defined payment waterfall mechanism. Surplus cash flow after meeting tax expenses, operating expenses, debt-servicing obligation, can be utilised for accelerated debt repayment post lock-in period.

Weaknesses

Financial Risk Profile:

JIL has an average financial risk profile marked by modest tangible net worth and high Debt-Equity ratio. The tangible net worth for the FY 22 stood at Rs 47.13 Crores as against Rs 45.38 Crores in FY 21. JIL follows an aggressive financial policy wherein the Debt Equity Ratio stood at 4.58 Times in FY 22 as against Rs 4.74 Times in FY 21. The debt profile majorly comprises of LRD Term loan of Rs. 199.80 Cr as on March 31, 2022. The company is further in talks for taking a Term Loan of Rs 165 Crores for a new ethanol plant. Further, the TOL/TNW (Total Outside Liabilities to Total Net Worth) ratio stands significant too at 9.46 times as on March 31, 2022 as against 9.84 times as on March 31, 2021.

Intense competition and highly regulated nature of liquor industry:

JIL revenues will continue to be impacted by increasing competition in the domestic IMFL market from global players as well as regional players. In addition, The Indian alcohol industry is highly regulated at almost every stage in the value chain. Furthermore, every state has its set of regulations with respect to distribution and retail channels, registration, taxation, and pricing of alcohol, ban on advertising, raw material availability, varying tax structures in different states pose challenges and restrict the industry's growth. The industry is also administered through a strict license regime. Different licenses are mandated at stages of production and distribution, including separate ones for manufacturers, distributors, and retailers. Any adverse change in the government's license authorisation policy, such as discontinuation or caps on renewal of licenses or sharp hike in license fees, could affect the entity.

Susceptibility to the profit due to the Raw Material's Prices:

JIL is into the business which requires raw material like barley. Raw material being agri commodity is susceptible to price volatility as can be seen from the past trends. The price of the raw material has been impacted in the FY 2022 which as a result declined the EBITDA margins for the period. The company would have incurred net losses had it not been the case that the company recovered substancial amount of provisions made for doubtful debts and non- active creditors. After covid and the farmer's protest last year, the prices has been impacted severly which as a result has been impacting the cost of raw material required by the company.

Rating Sensitivities

1. Significant improvement in scale of operations, while maintaining its profitability margins.
2. Deterioration in the working capital cycle leading to stress on the debt protection metrics or the liquidity position of the entity.
3. Delay in receipt of rentals from its tenants leading to cash flow mismatches.
4. Delay in on-boarding new tenants for the vacant spaces as envisaged by the entity.
5. Delay in timely monetization of assets held for sale for maintaining comfortable liquidity.
6. Any unforeseen and unfavourable regulatory changes.
7. Significant debt-funded capex.

Material covenants

None

Liquidity Position

Adequate

Jagatjit Industries Limited has adequate net cash accruals to its maturing debt obligations. Firm generated cash accruals of Rs. 10.75 crore for FY2022 as against Rs. 2.01 crore of repayment obligations for the same period. Current Ratio stood at 0.58 times as on 31 March 2022 as against 0.46 times in the previous year. The Bank Limit Utilization stands at 80.33% for the Cash Credit Facility of 15 Crores from Kotak Mahindra Bank. The Cash and Bank Balance maintained in FY 22 is 2.09 Crores.

Outlook: Stable

Acuité believes that JIL will maintain a 'Stable' outlook in the near to medium term on account of its established track record of the entity supported by extensive experience of the promoters of the entity and its diversified revenue profile. The outlook may be revised to 'Positive' if the entity registers higher-thanexpected growth in revenues, profitability margins and net cash accruals while improving its debt protection metrics and financial risk profile. The outlook may be revised to 'Negative' in case the entity registers substantial decline in revenues, or profitability margins or if the financial risk profile deteriorates due to higher than expected working capital requirements resulting in deterioration of the capital structure.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	457.89	418.85
PAT	Rs. Cr.	0.79	2.12
PAT Margin	(%)	0.17	0.51
Total Debt/Tangible Net Worth	Times	4.58	4.74
PBDIT/Interest	Times	1.37	1.38

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-52.htm

• Manufacturing Entities: https://www.acuite.in/view-rating-criteria-59.htm
• Service Sector: https://www.acuite.in/view-rating-criteria-50.htm
• Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
11 Oct 2021	Term Loan	Long Term	200.00	ACUITE BB- | Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Indusind Bank Ltd	Not Applicable	Term Loan	Dec 1 2018 12:00AM	11.75	Jun 30 2034 12:00AM	Simple	200.00	ACUITE B+ | Stable | Downgraded

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.