Jay Jay Mills (India) Private Limited

January 06, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	816.08 (Enhanced from 317.42)	CARE A; Positive (Single A; Outlook: Positive)	Revised from CARE A-; Positive (Single A Minus; Outlook: Positive)
Short-term Bank Facilities	200.00 (Enhanced from 160.00)	CARE A1 (A One)	Revised from CARE A2+ (A Two Plus)
Total Bank Facilities	**1,016.08 (Rs. One Thousand Sixteen Crore and Eight Lakh Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Jay Jay Mills (India) Private Limited (JJI) factors in significant growth in the scale of operations with improved profitability margins and capital structure during FY21 (refers to the period April 1 to March 31). The ratings continue to derive strength from long-standing experience of the promoters, established presence in baby wear segment and strong relationships with leading brands and retailers with improved order book position and presence of the operations in multiple geographies.

The ratings, however, remain constrained by the concentration of revenues to the US market, proposed large debt-funded capital expenditure program and exposure to volatility in the prices of yarn and foreign exchange rates.

CARE Ratings Ltd has taken consolidated view of JJI and its two subsidiaries Jay Jay Mills (Lanka) Private Limited (JJL) & Jay Jay Mills (Bangladesh) Private Limited (JJB), together referred as JJC for its analysis.

The outlook is 'Positive' as going forward, the scale of operations of JJC is expected to increase with sustained improvement in profitability backed by its incremental capacities, improved order book and its dominant position in Infant-wear market. The outlook may be revised to 'Stable' in case the company is not able to ramp up sales or any decline in profitability margins.

Key Rating Sensitivities

Positive factors- Factors that leads to a positive rating action/upgrade

- Ability to increase scale of operations above Rs.2,000 crore through incremental capacities while maintaining PBILDT margin of over 15% on sustained basis

Negative factors- Factors that lead to a negative rating action/ downgrade

- Any delay in execution of ongoing capex or any further large capital expenditure resulting in moderation of capital structure with overall gearing above 1.2x.

Detailed description of the key rating drivers

Key Rating Strengths:

Longstanding experience of the promoters: The promoter and his family members have been in the textile business especially in the segment of infant and kids wear for over five decades. The promoter and his three sons have rich experience in manufacturing of ready-made garments from their facilities in India, Bangladesh and Sri Lanka.

Established Presence children-wear segment and strong established relationship with reputed clients: The presence in niche children-wear segment has to an extent insulated the company from weak global economic scenario present in the past years. The group exports almost 100% of its manufactured products to reputed international companies and has long-established relationships with its major customers like Gerber (since 2001) and Tesco/Walmart (since 2006).

Strategic expansion into low-cost geographies for manufacturing with integrated manufacturing facility: The group has presence across knitting, processing and garmenting segments of the value chain, enhancing operational efficiencies. To derive long-term benefits from operating in low-cost export favoring geographies, the promoters branched out to other markets and started two wholly-owned operating subsidiaries JJL and JJB.

Improved operational performance: The operating income of JJC has consistently grown over the years with increased capacities and demand position. During FY21, the total operating income of JJC increased to Rs.1,822 crore from Rs.1,550 crore in FY20 at the y-o-y growth of 17%. The PBILDT margin improved to 15.52% in FY21 as against 13.05% in FY20 due to better realization for garments and improved demand from the e commerce segment and pick up of demand post Q1 FY21 and optimal capacity utilization post lockdowns. During 8m FY22 (prov), JJC reported an income of Rs.1,697 crore at annualized growth of 39% over FY21.

Key rating Weaknesses:

Risk associated with large-debt funded capex: The overall gearing of JJC improved to 0.72 x as on March 31, 2021 as against 1.21x as on March 31, 2020 due to repayment of loans extended by promoters and related parties to the tune of Rs. 55

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

crores. The debt coverage indicators also improved with Total debt/ GCA of 2.13x (PY:4.48x) as on March 31, 2021. JJC has planned to increase the capacity in its spinning, knitting, processing and garmenting division in JJI over the next 3 years. The total project cost is expected to be at Rs.680.56 crore of which Rs.544.20 crore is funded by term loans and the rest through internal accruals. As on September 30, 2021, JJC has incurred Rs.40.89 crore fully from accruals. Due to the proposed capex, the capital structure is expected to moderate slightly however will remain comfortable.

Exposure to volatility in cotton prices and forex rates: The prices of cotton and cotton yarn are volatile and are governed by various factors such as area under cultivation, monsoon, international demand-supply situation, etc. The company's PBDIT margins have been hovering in the 12%-15% range over the last five years, up from a range of 9.5 to 12 in the previous block of five years. The key risks to margins are volatility in cotton/yarn prices and forex rates. The company uses yarn in the count range of 30s-40s and is normally dependent on the S6 variety of cotton. All the exports are in USD denomination and the forex rate have been fluctuating over the past few years.

Liquidity- Strong
Liquidity is strong marked by sufficient cushion in accruals vis-à-vis repayment obligations of Rs.63.32 crore in FY22 and adequate cash balance of Rs.171.41 crore as on March 31, 2021. JJC generally provides a credit period of 30-45 days to its customers and avails a credit period of around 30 days from its suppliers. Most of its customers being reputed international players, the company is able to realize its sales within the stipulated time. Furthermore, the company makes advance payments at times of need for sourcing of yarn. Generally, the company maintains an inventory of 3-4 months for its raw material. The inventory holding decreased from 88 days in FY20 to 72 days in FY21. Due to lower inventory holding, the operating cycle improved and stood at 82 days during FY21 (PY: 96 days). The average working capital utilization stood comfortable at 69.07% for the 12 months ended September 2021.

Industry Outlook
Apparel exports contribute the maximum in overall exports of textile items accounting for approximately 45% on an average. The apparel exports on a cumulative basis declined by 21.1% y-o-y to USD 12.2 billion during FY21 led by Covid-19 pandemic disruptions. India's apparel exports are expected to revert to a growth trajectory in FY2022 with a recovery in demand in key markets of the United States and the European Union. The export demand will partly benefit from the low base effect and is likely to be supported by the increasing the focus of large buyers on diversifying their sourcing base beyond China. Following a contraction in the calendar year 2020, global apparel trade is expected to revert to pre-Covid levels in CY2021 and grow at a muted pace of one to two per cent per annum in the near to medium term in line with the past five years.

Analytical approach:
Consolidated. In view of the strong operational linkages between JJI and its two subsidiaries Jay Jay Mills (Lanka) Private Limited (JJL) & Jay Jay Mills (Bangladesh) Private Limited (JJB), CARE Ratings Ltd has taken a consolidated view of the three companies together referred as JJC for its analysis. JJI holds 99.99% and 99.52% of shares in JJL and JJB, respectively.

Applicable Criteria
Policy on default recognition
Financial Ratios – Non-financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Consolidation
Short Term Instruments
Cotton Textile
Manufacturing Companies

About the Company
JJI, which was promoted by Mr M. Balasubramaniyam, was initially operating as a sole proprietorship since 1971. It was incorporated as a private limited company in the year 1999. The company is engaged in the manufacture and export of ready-made garments (RMG), knitted fabrics and made-ups. JJI has two wholly-owned operating subsidiaries, viz, Jay Jay Mills Lanka Private Limited (JJL) and Jay Jay Mills Bangladesh Private Limited (JJB) located at Sri Lanka and Bangladesh, respectively, who source entire fabric from JJI and process them into garments and in-turn export them to US and European markets.

Brief Financials (Consolidated) (Rs. crore)	FY20 (A)	FY21 (A)	H1 FY22 (Prov)
Total operating income	1549.69	1,822.4	NA
PBILDT	202.24	282.77	NA
PAT	48.22	150.74	NA
Overall gearing (times)	1.21	0.72	NA
Interest coverage (times)	3.29	9.28	NA

A-Audited

Status of non-cooperation with previous CRA:
Not Applicable

Status of non-cooperation with previous CRA:
Not Applicable.

Any other information:
Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	March 2033	816.08	CARE A; Positive
Fund-based - ST-Bills discounting/ Bills purchasing		-	-	-	200.00	CARE A1

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	816.08	CARE A; Positive	-	1)CARE A-; Positive (31-Mar-21) 2)CARE A-; Stable (02-Apr-20)	1)CARE A-; Stable (01-Apr-19)	-
2	Fund-based - ST-Bills discounting/ Bills purchasing	ST	200.00	CARE A1	-	1)CARE A2+ (31-Mar-21) 2)CARE A2 (02-Apr-20)	1)CARE A2 (01-Apr-19)	-

Annexure 3: Detailed explanation of covenants of the rated facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - ST-Bills discounting/ Bills purchasing	Simple

Annexure 5: Bank/ Lender details for the company:
To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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