# JNS Neopac India Private Limited

October 07, 2024

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 79.90<br>(Reduced from 84.75) | CARE BB+; Negative | Reaffirmed; Outlook revised from Stable |

Details of instruments/facilities in Annexure-1.

## Rationale and key rating drivers

Revision in rating outlook from Stable to Negative reflects the likelihood of continuing strain in liquidity position in case of further delay in offtake by Karnataka Co-Operative Milk Producer's Federation Limited (KMF).

The ratings assigned to the bank facilities of JNS Neopac India Private Limited (JNIPL) factors in the lower than agreed offtake by KMF as well as its leveraged capital structure and moderate coverage indicators.

These rating weaknesses are partially offset by the long-term concession agreement with KMF for a period of 27 years, which covers assured minimum off-take, price escalation and reset clause, payment schedule, etc.

## Rating sensitivities: Factors likely to lead to rating actions

### Positive factors

- Income above Rs. 120 Cr whilst maintaining the PBILDT margins at or above 15% along with timely payments from KMF.

### Negative factors

- Unable to ramp-up operations or lower profitability that weakens the minimum debt-service coverage ratio (DSCR) to less than 1.1x during the repayment period
- Deterioration in the interest coverage ratio at less than 1.3x.

**Analytical approach:** Standalone

**Outlook:** Negative

Revision in the outlook reflects the likelihood of continuing strain in liquidity position in case of further delay in offtake by Karnataka Co-Operative Milk Producer's Federation Limited (KMF). The Outlook may be revised to 'Stable' in case the company is able to sell the contracted quantity to KMF.

## Detailed description of key rating drivers:

## Key weaknesses

### Lower than agreed offtake by KMF

Despite having assured offtake agreement with KMF, there is lower offtake from KMF. This delay caused the company to fall short of its projections over the past 12 months since it became operational in June 2023. While there is gradual ramp up in operations, however, it has still not reach to the minimum offtake level and if the delay continues, it may impact JNIPL's liquidity level.

### Leveraged capital structure and moderate coverage indicators

Given the recently completed project capex, the capital structure of JNIPL is marked by overall gearing (adjusted for quasi equity) which stood at 3.80x as on March 31, 2024 (Prov.) on account of accumulation of losses. The debt profile of the company comprises term loan and working capital loan. The promoters of the company had initially infused unsecured loans to the tune of Rs. 23.85 Cr, and the same is subordinated to the bank facilities, and has been considered as quasi-equity for analysis. Additionally, they have injected USL of approximately Rs. 6 Cr during H1FY25. CARE Ratings notes that with gradual ramp-up in the operations translating into profitable operations, the capital structure is likely to improve in absence of any major debt-funded capex.

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

## Key strengths

**Long-term concession agreement with KMF for a period of 27 years**
The company has been awarded for setting up the packaging products under PPP model with KMF. KMF and JNIPL have entered into a concession agreement for a period of 27 years. JNS will manufacture the packaging products and sell to the KMF for a period of 27 years at agreed prices, which provides long term revenue visibility. KMF has also agreed to buy minimum offtake quantity from JNIPL. Presence of strong counterparty lowers the payment risk.

**Liquidity**: Stretched
The liquidity of the company is stretched, as it is yet to achieve the breakeven. The average FB limit utilisation for 12-month period ending June-24, is high at 90.56%. However, the company is maintaining DSRA of Rs. 2.85 crore with the lender and there has been consistent USL infusion from the promoters.

## Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector

## About the company and industry

### Industry classification

| Macroeconomic indicator | Sector | Industry | Basic industry |
|---|---|---|---|
| Industrials | Capital Goods | Industrial Products | Packaging |

JNIPL, incorporated on June 20, 2022, manufactures corrugated boxes, PP woven bags, and PP laminated kraft paper bags with capacities of 3200 MT/month, 20 lakh bags/month, and 35 lakh bags/year, respectively. The company has a 27-year concession agreement with KMF for the sale of packaging raw materials at minimum guaranteed off-take levels. JNIPL is closely held by its promoters, with Jayasheel N Shetty as the managing director, who brings four decades of experience in the civil and hotel industries.

| Brief Financials (₹ crore) | March 31, 2023 (A) | March 31, 2024 (UA) | Q1FY25 (UA) |
|---|---|---|---|
| Total operating income | 0.06 | 46.80 | 17.14 |
| PBILDT | -1.68 | 16.75 | 6.82 |
| PAT | -1.47 | -5.23 | NA |
| *Overall gearing (times) | 2.34 | 2.11 | NA |
| Interest coverage (times) | NM | 1.73 | 2.49 |

A: Audited UA: Unaudited; NM: Not Meaningful; NA: Not available; Note: these are latest available financial results
*Considering initial unsecured loan from promoter as part of equity

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of instruments rated**: Annexure-4

**Lender details**: Annexure-5

## Annexure-1: Details of instruments/facilities

| Name of the Instrument | ISIN | Date of Issuance | Coupon Rate (%) | Maturity Date | Size of the Issue (₹ crore) | Rating Assigned and Rating Outlook |
|---|---|---|---|---|---|---|
| Fund-based - LT-Cash Credit | - | - | - | - | 20.00 | CARE BB+; Negative |
| Fund-based - LT-Term Loan | - | - | - | December 2032 | 59.90 | CARE BB+; Negative |

## Annexure-2: Rating history for last three years

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating History | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (₹ crore) | Rating | Date(s) and Rating(s) assigned in 2024-2025 | Date(s) and Rating(s) assigned in 2023-2024 | Date(s) and Rating(s) assigned in 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 |
| 1 | Fund-based - LT-Term Loan | LT | 59.90 | CARE BB+; Negative | - | 1)CARE BB+; Stable (18-Sep-23) | - | - |
| 2 | Fund-based - LT-Cash Credit | LT | 20.00 | CARE BB+; Negative | - | 1)CARE BB+; Stable (18-Sep-23) | - | - |

LT: Long term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not applicable

## Annexure-4: Complexity level of instruments rated

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1 | Fund-based - LT-Cash Credit | Simple |
| 2 | Fund-based - LT-Term Loan | Simple |

## Annexure-5: Lender details

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| To view the lender wise details of bank facilities please click here |

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

## Contact us


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**About us:**

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