

Jay Jay Mills India Private Limited

March 31, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long-term Bank Facilities	317.42 (Reduced from 329.74)	CARE A-; Positive (Single A Minus; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Short-term Bank Facilities	160.00	CARE A2+ (A Two Plus)	Revised from CARE A2 (A Two)
Total Bank Facilities	477.42 (Rs. Four hundred seventy seven crore and forty two lakh only)		

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 consistent growth in the scale of operations over the past three years ended FY20 (refers to the period April 1 to March 31) and improved profit margins during FY20 and 9mFY21 (refers to the period April 1 to December 31). The ratings continue to derive strength from long-standing experience of the promoters, established presence in infant wear segment and strong relationships with leading brands and retailers with improved order book position and presence of the group in low-cost & export-favouring geographies.

The ratings however remain constrained by the concentration of revenues to the US market, exposure to volatility in the prices of yarn and foreign exchange rates and moderate however improved leverage levels on account of the recently completed debt-funded capital expenditure program

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

Outlook: Positive

The outlook is 'Positive' as going forward, JJC is expected to benefit from its recently completed backward integration project and enhance sales with 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 from its incremental capacities.

Rating sensitivities

Positive factors

- Ability to improve profitability with PBILDT margin of over 14% on sustained basis
- Ability to improve capital structure with overall gearing levels below 0.8x

Negative factors

- Any further large debt-funded capex resulting in deterioration of capital structure

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 two decades. The promoter and his three sons have rich experience in the 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 favouring geographies, the promoters branched out to other markets and started two wholly owned operating subsidiaries JIL and JIB.

Improved financial and operational performance in FY20 and 9mFY21: JJC has integrated operations in place to produce yarn, knitted fabrics and apparels. During FY20, the operating income of JJC increased to Rs.1,550 crore from Rs.1,347 crore in FY19 at the y-o-y growth of 16% backed by incremental sales from added capacities over the past. The PBILDT margin improved at 13.05% in FY20 as against 11.92% in FY19 with improved realization for garments and better operational efficiency post completion of project. During 9mFY21 (as per provisional results), JJC reported an income of Rs.1247 crores registering annualized growth of 7.3% over FY20.

Key rating Weaknesses

Moderate capital structure: The overall gearing of JJC stood moderate at 1.21x as on March 31, 2020 as against 1.41 as on March 31, 2019 on account of debt funded capex. The debt coverage indicators also stood moderate with Total debt/GCA of 4.48x as on March 31, 2020 albeit improved from 6.45x as on March 31, 2019.

Exposure to volatility in cotton prices and forex rates: The JJC's PBILDT margins have been hovering in the range of 11%-13% over the last four years ended FY20. 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. The average cotton prices were higher in FY19 and H1FY20 and declined during Cotton season (CS) 2019-20. All the exports are in USD denomination and the forex rate have been fluctuating over the past few years.

Liquidity- Adequate: JJC has adequate liquidity characterized by sufficient cushion in accruals vis-à-vis repayment obligations of Rs. 37.8 crore in FY21 and adequate cash balance of Rs.100 Crore as on March 31, 2020. 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 realise 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. JJI has working capital limit of Rs.160 crore and its average working capital utilization at 68.05% for the twelve months ended December 2020. JJI has availed moratorium from its lenders from March 2020 to May 2020 for its term loans and working capital limits as part of the RBI covid relief.

Industry Outlook and impact of covid-19: Apparel exports contribute the maximum in overall exports of textile items accounting for approximately 45% on an average. European market accounts for about 33% of the total apparel exports in value terms, followed by US (around 23%) and UAE (approximately 18%). The demand for textiles was lower in H1FY21 in both the markets, domestic and international markets on account of Covid-19. The closure of retail stores and malls on account of lockdown situation across the nation affected the industry's sales. The demand for apparels had picked up post lockdown restrictions. India's readymade garments (RMG) exports grew by 6.32% to USD 1,177.33 million in October 2020 against USD 1107.34 million exports registered during the corresponding month of October, 2019. Cumulative RMG exports during April-October, 2020-21 declined by 33.63% to USD 5,960.84 million.

Analytical approach:

Consolidated. In view of the strong operational linkages between JJI and its two subsidiaries Jay Jay Mills (Lanka) Private Limited (JIL) & Jay Jay Mills (Bangladesh) Private Limited (JJB), CARE 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 JIL and JJB respectively.

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Financial Ratios- Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology for Cotton Textile Manufacturing](#)

[Rating Methodology: Consolidation](#)

About the company

JJI, which was promoted by Mr M. Balasubramaniam, 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 (JIL) 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)	FY19(A)	FY20(A)
Total operating income	1,347.1	1549.69
PBILDT	160.7	202.24
PAT	16.0	48.22
Overall gearing (times)	1.41	1.21
Interest coverage (times)	2.74	3.29

A-Audited;

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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	December 2026	317.42	CARE A-; Positive
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	160.00	CARE A2+

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	317.42	CARE A-; Positive	1)CARE A-; Stable (02-Apr-20)	1)CARE A-; Stable (01-Apr-19)	-	1)CARE A-; Stable (16-Mar-18)
2.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	160.00	CARE A2+	1)CARE A2 (02-Apr-20)	1)CARE A2 (01-Apr-19)	-	1)CARE A2 (16-Mar-18)

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 the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - ST-Bills discounting/ Bills purchasing	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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