JICS Logistic Limited

April 06, 2018

Ratings

Facilities	Amount (Rs. Crore)	Rating[1]	Rating Action
Long/Short-term Bank Facilities	22.50 (Reduced from Rs.25.00 crore)	**CARE BB+; Stable/ CARE A4+ (Double B Plus; Outlook: Stable/ A Four Plus)**	**Revised from CARE BBB-; Negative/ CARE A3 (Triple B Minus; Outlook: Negative/ A Three)**
Short-term Bank Facilities	7.50	**CARE A4+ (A Four Plus)**	**Revised from CARE A3 (A Three)**
Total Facilities	**30.00 (Rupees Thirty Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of JICS Logistic Limited (JLL) takes into account substantial deterioration in its financial risk profile with net losses incurred during FY17 (refers to the period April 01 to March 31) leading to weak debt coverage metrics along with delay in the realisation of JLL's disputed debtors adversely impacting its liquidity.

The ratings continue to be constrained by high operating leverage for its warehousing business, along with underutilization of its current warehousing capacities and significant exposure to related parties in the form of investments and loans and advances.

The ratings however continue to factor in experience of its promoters in agri-warehousing industry, low leverage and favorable demand scenario for the warehousing industry. The ratings also factor in discontinuation of the volatile agri-commodity low margin trading business.

The ability of JLL to scale up its operations while improving utilization of its storage capacities and profitability, generating envisaged returns from its investments in subsidiaries and affiliates along with extent of future exposure thereof shall be the key rating sensitivities. Further, early resolution of disputed debtors with quick realization within envisaged time frame shall also be crucial from the credit perspective.

Detailed description of the key rating drivers

Key Rating Weakness

Deterioration in the financial risk profile with decline in total operating income and net loss incurred by the company leading to weak debt coverage indicators: The total operating income of JLL declined to Rs.121.69 crore during FY17 mainly on account of decline in its trading of agricultural commodities coupled with low demand of warehousing owing to demonetization in the second half of the year. The PBILDT margins declined substantially during FY17 on account of increase in the cost of traded goods coupled with the rent costs for the leased warehouses which were not fully absorbed backed by low capacity utilization in its asset heavy warehousing business. Further, the company incurred net loss of Rs.5.33 crore owing to higher depreciation and interest costs for the year. Furthermore, decline in the scale of operations with net loss led to cash loss of Rs.1.10 crore. This in turn resulted in substantial deterioration of the debt coverage indicators during the year. JLL reported total operating income of Rs.7.19 crore for the year ended September 30, 2017 mainly from the agri-warehousing business. With assets heavy business model, CARE expects the pressure on net profits and return indicators to continue in near term to medium.

Delay in recovery of long overdue debtors: The company has a receivables outstanding more than 6 months amounting to Rs.18.19 crore out of the total debtors of Rs.33.52 crore as on March 31, 2017. Though, the company has recovered substantial debtors during 9MFY18 leading to reduction in outstanding debtor position, there are still long overdue debtors. As on December 31, 2017, the outstanding balance of trade receivable was Rs.7.99 crore, out of which the debtors for more than 6 months stood at Rs.5.07 crore. These long overdue debtors are disputed and there are ongoing legal proceedings. This has led to to higher reliance on the working capital borrowings. Therefore, timely realization of the receivables and deployment of the realized funds towards the core agri-warehousing business would be crucial for JLL's liquidity.

Significant exposure to the related parties in the form of equity and loans & advances: As on March 31, 2017, JLL had a total exposure including investments and loans and advances towards its subsidiaries companies stood at around Rs.45

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

crore *(~ 43% of its T. Net Worth as on March 31, 2017)* with major loans advanced to Samaira Agri Foods Private Limited (SAFPL) and Vardhman Capital Services Limited. Further, JLL has also guaranteed the debt of its subsidiary SAFPL by way of corporate guarantee of Rs.2.50 crore for setting-up of its plant for manufacturing chips and palette snacks. Therefore, generation of envisaged returns from the investments made and loans & advances given to the related parties and extent of future exposure to these companies would be crucial from the credit perspective.

Underutilization of the current warehousing capacities: The capacity utilization of JLL's warehouses declined consistently from FY15 onwards on account of decline in volumes from exchange based business and low demand in the private market which resulted in decline in Fixed Assets Turnover Ratio. As the exchange based volumes at JLL's warehouses declined, it has increased its focus on private warehousing to improve the utilization levels of its warehouses. The company has already tied up with some of the reputed private companies which may improve the utilization of its warehousing capacity in medium term, however, the ramp up in volumes remains to be seen. Further, private warehousing provides the benefits of competitive pricing, in response to various demand-supply scenarios, compared with fixed charges to be levied in case of commodities stored for exchange-based business.

Key Rating Strengths

Experience of promoters in agri-warehousing industry: The promoters of JLL have an experience of more than two decades in the agri-warehousing and related service industry. Mr. Anil Jhawar, the Managing Director of the company, has been involved in the agri-warehousing and light engineering industries since the last three decades and is assisted by a team of well-qualified and experienced professionals for daily and operational management of the company.

Discontinuation of the volatile agri-commodity trading business: In addition to operating warehousing business, the company was also engaged in trading of various agricultural commodities which exposed the company to the volatility associated with the prices of these commodities. Therefore, JLL discontinued its agri- commodity trading business during FY18 in line with the management's shift towards the core business on only providing warehousing and value-added services. However, till February 28, 2018, the company generated trading revenue of Rs.11.67 crore out of the liquidation of the inventories of Rs.15.14 crore as on March 31, 2017.

Low leverage backed by healthy networth base: Despite the net losses incurred during the year, capital structure marked by overall gearing remained stable at 0.43 times as on March 31, 2017 mainly due to strong net-worth base.

Favorable demand scenario for the agri-warehousing industry: The demand for warehousing facilities has constantly been on the rise due to factors like rise in agricultural output, increase in government procurement, rise in contract farming, development of organized retail sectors requiring large storage capacities to achieve economies of scale as well as capacity constraints at existing facilities. Also, with the implementation of food security bill and good monsoon, the requirement for storage capacities would increase significantly going forward. JLL is, thus, favorably placed to take advantage of these opportunities in the market.

Analytical Approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short-term Instruments
Rating Methodology - Wholesale Trading
Financial Ratios - Non Financial Sector

About the Company

Incorporated in 2009, JLL took over the business of the partnership firms of its promoters, the Jhawar family members. Till FY17, JLL was engaged in providing agri-warehousing and related services like agri-commodity finance and commodity trading. From FY18 onwards, the company discontinued the business of trading of commodities whereas the commodity finance business was transferred to subsidiary and it has strategically shifted its focus on agri-warehousing business. At present, JLL has a storage capacity of around 124,837 MTs (both dry and cold), with 18 warehouses taken on lease and four own warehouses. It is also affiliated with National Commodity and Derivatives Exchange Ltd. (NCDEX) as a warehousing service (WSP) provider across the country.

In FY12 (refers to the period April 1 to March 31), a fund managed by IL&FS Private Equity invested Rs.40 crore in the entity in the form of compulsory convertible preference shares (CCPS). As on March 31, 2017, Jhawar family held the majority 94.51% stake and PE player held 5.49% stake.

Brief Financials (Rs. Crore)	**FY16 (A)**	**FY17 (A)**
Total operating income	145.09	121.69
PBILDT	9.04	2.44
PAT	1.36	-5.53
Overall gearing (times)	0.43	0.43
PBILDT Interest coverage (times)	2.23	0.67

A: Audited

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

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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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
Non-fund-based - ST-BG/LC	NA	NA	NA	7.50	CARE A4+
Fund-based - LT/ ST-Cash Credit	NA	NA	NA	22.50	CARE BB+; Stable / CARE A4+

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT/ ST-Cash Credit	LT/ST	22.50	CARE BB+; Stable / CARE A4+	-	1)CARE BBB-; Negative / CARE A3 (13-Apr-17)	-	1)CARE BBB- / CARE A3 (02-Feb-16)
2.	Non-fund-based - ST-BG/LC	ST	7.50	CARE A4+	-	1)CARE A3 (13-Apr-17)	-	1)CARE A3 (02-Feb-16)

CARE Ratings
Professional Risk Opinion

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