JICS Logistic Limited

April 13, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long term/ Short-term Bank Facilities	25.00	**CARE BBB-; Negative/CARE A3 [Triple B Minus; Outlook: Negative/ A Three]**	**Reaffirmed**
Short-term Bank Facilities	7.50	**CARE A3 [A Three]**	**Reaffirmed**
Total Facilities	**32.50 [Rupees Thirty Two crore and Fifty Lakh only]**		

Details of instruments/facilities in Anneuxre-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of JICS Logistic Ltd (JLL) continue to factor in experience of its promoters in agri-warehousing industry, diversified revenue profile and low leverage.

The ratings also factor increased focus of the company on warehousing business while reducing dependency on low margin exchange-based volumes.

The ratings, however, continue to be constrained by high operating leverage for its warehousing business, risk associated with volatile commodity prices in its trading business and exposure to related parties in the form of investments and loans and advances. The ratings are further constrained by its elongated debtors as on February 28, 2017, moderation in its operating and financial performance during 9MFY17 (refers to the period April 1 to December 31) on account of impact of demonetization and lower capacity utilization of its warehouses. The ratings are also constrained on account of debt funded capex plan of JLL and its subsidiary in the medium term.

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 and completion of ongoing capex within envisaged time and cost parameters shall be the key rating sensitivities. Realization of debtors exceeding six months within envisaged time frame shall also be extremely crucial.

Outlook: Negative

The negative outlook reflects CARE's expectation of further delay in realisation of JLL's elongated debtors adversely impacting its liquidity along with further moderation in its operating and financial performance.

The outlook may be revised to 'Stable' if JLL is able to quickly recover its stuck debtors and scale up its cash accruals while witnessing healthy improvement in capacity utilization of its warehouses.

Detailed description of the key rating drivers

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. Mr. Pranav Jhawar, the Executive Director, also has an experience of more than a decade in warehousing.

Diversified revenue profile with moderate scale of operations: JLL has a diversified revenue profile in the agri-warehousing industry, as it provides warehousing services, agri-commodity finance as well as commodity procurement services to its clients. It is also an approved warehousing service provider (WSP) of National Commodity and Derivatives Exchange Ltd. (NCDEX) for accepting physical deliveries of commodities traded on the exchange. The company has reduced its exposure of agri-commodity finance business as reflected by decline in the size of loan portfolio from Rs.52.52

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

crore as on March 31, 2014 to Rs.20.95 crore as on March 31, 2016. JLL has transferred this portfolio to its subsidiary Vardhaman Capital Service Ltd (VCSL).

Reduced dependence on low margin exchange based trading volume: JLL has reduced its dependence on exchange based volumes and has shifted its focus on private warehousing. This has been reflected from decline in revenue of commodity procurement services from Rs.184.58 crore during FY15 to Rs.129.60 crore during FY16. 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.

Low leverage: Overall gearing of JLL continued to remain comfortable and it improved marginally from 0.54 times as on March 31, 2015 to 0.43 times as on March 31, 2016 and 0.37 times as on December 31, 2016 on account of reduction in short term borrowings of the company on the back of decline in trading resulting in low utilisation of the warehouses. Also, the debt coverage indicators remained comfortable due to longer tenor loan and lower rate of interest due to priority sector lending for the banks. Interest coverage continued to remain modest at 2.23 times during FY16 and 1.57 times during 9MFY17.

Key Rating Weaknesses

Decline in capacity utilization of warehouses and moderation in cash accruals: Total operating income (TOI) declined by 28% y-o-y to Rs.145.09 crore during FY16 on account of reduced exposure to low margin commodity procurement services. The same has been reflected from increase in PBILDT margin from 4.64% during FY15 to 6.23% during FY16. Despite decline in scale of operations, gross cash accrual (GCA) remained stable at Rs.4.97 crore during FY16. However, the capacity utilization of JLL's warehouses has exhibited a declining trend from 61% in FY15 to 46% during FY16 and further to 33% during 11MFY17. This has also resulted in moderation in GCA of JLL to Rs.1.77 crore in 9MFY17 on TOI of Rs.49.05 crore owing to its high operating leverage. Total debt/GCA also moderated from 9.24 times during FY16 to 16.38 times (annualized) during 9MFY17 on account of limited cash accruals.

Elongation of receivables: Receivables of JLL exceeding six months increased from Rs.2.30 crore as on March 31, 2015 to Rs.27.48 crore as on March 31, 2016; out of which receivables of Rs.17.39 crore were stuck in the private companies which have modest credit profile. Outstanding receivables from these companies though reduced continued to remain high at Rs.12.50 crore as on February 28, 2017. Going forward, ability of JLL to realize these receivables quickly shall remain a key rating sensitivity.

Exposure to related parties in the form of investment and loans & advances: Investment and loans & advances to related parties stood at 38% of JLL's networth as on March 31, 2016 with major loans advanced to VCSL and Samaira Agri Foods Pvt Ltd. (SAFPL). During 9MFY17, the company has transferred its loan portfolio of Rs.4.09 crore to VCSL and further advanced loans of Rs.1.78 crore to SAFPL. Generation of envisaged returns from the investments made and loans & advances given to the related parties and extent of future exposure to these companies shall be the key rating monitorable.

Capex plans of the company: JLL has completed construction for its two warehouses at Jaipur in FY16 at a total cost of Rs.19.69 crore. Considering current macroeconomic scenario resulting in low utilisation of the warehouses, the company has deferred the construction of two more warehouses each at Indore and Bikaner in FY18 that are at nascent stage of construction. Furthermore, JLL through its wholly owned subsidiary, SAFPL, is in process of setting up of manufacturing plant for potato chips and palette snacks at a total cost of Rs.14.50 crore, to be funded through term loan of Rs.10 crore and balance through promoter's contribution. Timely execution of the capex and generation of envisaged returns from the same shall be the key rating monitorable.

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 - Manufacturing Companies
Financial ratios - Non-financial sector

About the Company

Incorporated in 2009, JICS Logistic Ltd. (JLL) took over the business of the partnership firms of its promoters, the Jhawar family members. At present, JLL is engaged in providing agri-warehousing and related services like agri-commodity finance and commodity procurement services. JLL had a storage capacity of around 124,837 MTs (both dry and cold) as on February 28, 2017, with 44 warehouses taken on lease and four own warehouses. It is also affiliated with National Commodity and Derivatives Exchange Ltd. (NCDEX) as a warehousing service provider (WSP) 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, 2016, Jhawar family held the majority 94.51% stake and PE player held 5.49% stake.

Based on audited results, during FY16 (refers to the period from April 1 to March 31), the company reported TOI of Rs.145.09 crore (FY15: Rs.203.46 crore), Profit after Tax (PAT) of Rs.1.36 crore (FY15: Rs.0.17 crore) and gross cash accrual (GCA) of Rs.4.97 crore (FY15: Rs.5.04 crore).

During 9MFY17, the company reported TOI of Rs.49.05 crore, net loss of Rs.2.54 crore and GCA of Rs.1.77 crore..

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for 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
Fund-based - LT/ ST-Cash Credit	-	-	-	25.00	CARE BBB-; Negative / CARE A3
Non-fund-based - ST-BG/LC	-	-	-	7.50	CARE A3

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT/ ST-Cash Credit	LT/ST	25.00	CARE BBB-; Negative / CARE A3	-	-	1)CARE BBB- / CARE A3 (02-Feb-16)	1)CARE BBB- / CARE A3 (10-Dec-14)
2.	Non-fund-based - ST-BG/LC	ST	7.50	CARE A3	-	-	1)CARE A3 (02-Feb-16)	1)CARE A3 (10-Dec-14)

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