JICS Logistic Limited

Ratings

Facilities	Amount (Rs. crore)	Ratings1	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]**		

Rating Rationale

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.

Background

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.

Credit Risk Assessment

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, agricultural equipment manufacturing and automotive engineering. He is a B.E (Industrial Engineering) and MBA by qualification and looks after the operations of JLL along with Mr. Anil Jhawar. He is also assisted by a team of well-qualified and experienced professionals for daily and operational management of the company.

Diversified revenue profile

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. In agri-warehousing services, JLL provides modern and

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

scientific storage and preservation services for more than 40 commodities in seven states of the country. It is also an approved WSP for NCDEX for accepting physical deliveries of commodities traded on the exchange. In addition to the regular warehousing services, the company also provides testing and certification services for agri-commodities stored at its warehouses. Contribution of warehousing services in TOI increased from 5% during FY15 to 9% during FY16.

JLL also provides agri-commodity procurement services to the selected clients, to capitalize upon its in-house expertise and network in the market. It procures commodities from both domestic as well as international markets. Income from commodity procurement services declined from Rs.184.58 crore during FY15 to Rs.129.60 crore during FY16 which reflects management's plan to reduce dependence on low margin trading operations and increase focus on warehousing business.

JLL also provides agri-commodity financing services for goods stored at its warehouse. The company leverages upon its established relationship with agri-commodity traders operating in the local market and provides them funding for their procurement requirements. However, 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 crore as on March 31, 2014 to Rs.20.95 crore as on March 31, 2016 resulting in decline in income from the segment to Rs.1.36 crore during FY16 as compared to Rs.8.29 crore during FY14.

Reduced dependence on trading; albeit with decline in capacity utilization of warehouses

As the exchange based volumes at JLL's warehouses declined, it increased its focus on private warehousing to improve the utilization levels of its warehouses. 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. However, the capacity utilization of JLL's warehouses declined from 61% in FY15 to 46% during FY16 and further to 33% during 11MFY17 on account of decline in volumes from exchange based business, low demand in the private market and impact of demonetization.

Moderation in cash accrual partly offset by low leverage and favorable loan covenants

Total operating income (TOI) of JLL 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, GCA moderated to Rs.1.77 crore in 9MFY17 on TOI of Rs.49.05 crore due to decline in capacity utilization and impact of demonetization. Total debt/GCA moderated from 9.24 times during FY16 to 16.38 times (annualized) during 9MFY17 on account of limited cash accruals. Interest coverage continued to remain modest at 2.23 times during FY16 and 1.57 times during 9MFY17. However, overall gearing of JLL 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 moderate due to longer tenor loan and lower rate of interest due to priority sector lending for the banks.

Exposure to related parties in the form of investment and loans & advances

Investment and loans & advances to related parties increased from 35% of JLL's networth as on March 31, 2015 to 38% as on March 31, 2016 with major loans advanced to Vardhaman Capital Service Ltd (VCSL) and Samaira Agri Foods Pvt Ltd. (SAFPL). In FY15, JLL had incorporated a subsidiary, VCSL and the management is in process of transferring its commodity finance business to the said entity. During 9MFY17, the company has transferred the portfolio of Rs.4.09 crore to VCSL. JLL has further advanced loans of Rs.1.78 crore during 9MFY17 to SAFPL. SAFPL is in process of setting up capacity for manufacturing potato chips and palette snacks.

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.

Increase in working capital intensity arising from delay in realization of debtors

Inventory of JLL declined as on March 31, 2016 to Rs.11 crore from Rs.49 crore as on March 31, 2015 on account of decline in trading activities. Nevertheless, receivables of the company 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. Average utilization of fund based working capital limits was 80.69% for the trailing twelve months ended February 2017.

Updates on capex

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. The total cost of the said construction is expected to be Rs.16.46 crore. Presently, the construction for the warehouses is at nascent stage and the company plans to avail debt for the same.

Also, the company through its wholly-owned subsidiary Samaira Agri Foods Pvt Ltd (SAFPL) has started marketing of ready-to-eat snacks under the brand name 'Indorilal' during FY16. Furthermore, 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 which is expected to be guaranteed by JLL and balance through promoter contribution. JLL has already advanced Rs.6.73 crore till December 31, 2016 to SAFPL.

The capex exposes JLL to project-implementation risks as well as general risks in construction. Further, post completion of the project, it would also be exposed to demand-related risks, given the high operating leverage. JLL's ability to complete the projects within envisaged time and cost parameters while generating envisaged returns thereof is crucial from credit perspective.

Prospects

The prospects of JLL are likely to be driven by its ability to scale up the operations while improving profitability through efficient utilization of warehousing capacity and quick realization of the stuck debtors. Completion of the on-going capex within the envisaged time and cost parameters and generation of envisaged returns from the same would also be crucial for its long-term growth. Extent of future exposure to related parties in the form of investment and loans advances shall also be a key rating monitorable.

Financial Performance - Standalone (Rs. Cr)

For the financial year ended / as at March 31,	2014	2015	2016
	12m,A	12m,A	12M,A
Working Results			
Net sales	60.39	202.98	143.86
Total operating income	61.10	203.46	145.09
PBILDT	7.53	9.44	9.04
Interest	2.29	4.19	4.06
Depreciation	4.68	4.89	4.72
PBT	0.56	0.22	0.25
PAT (After deferred Tax)	0.11	0.17	1.36
Gross Cash Accruals	5.13	5.04	4.97
Financial Position			
Equity Share capital	56.96	56.96	56.96
Net Worth	96.27	100.36	105.66
Total capital employed	154.36	180.94	172.73
Key Ratios			
Growth			
Growth in Total operating income (%)	178.71	195.80	(28.69)
Growth in PAT (after D. Tax) (%)	(111.81)	48.56	699.47
Profitability			
PBILDT/Total Op. income (%)	12.32	4.64	6.23
PAT (after deferred tax)/ Total operating income (%)	0.19	0.08	0.94
ROCE (%)	2.52	3.20	2.44
Solvency			
Long Term Debt Equity ratio (times)	0.00	0.03	0.14
Overall gearing ratio (times)	0.29	0.54	0.43
PBILDT Interest coverage (times)	3.29	2.25	2.23
PBIT Interest coverage (times)	1.24	1.09	1.06
Term Debt/ Gross cash accruals (years)	0.00	0.65	2.88
Total Debt/ Gross cash accruals (years)	5.45	10.79	9.24
Liquidity			
Current ratio (times)	2.39	1.18	1.26
Quick ratio (times)	2.23	0.57	1.10
Turnover			
Average Collection Period (days)	32	25	80
Average Inventory Period (days)	26	53	80
Average Creditors Period (days)	6	24	78
Operating cycle (days)	52	54	82

A: Audited

Annexure I
Details of rated facilities
1. Long term / Short term facilities
1. A. Fund based limits

Sr. No.	Name of Bank	Amount (Rs. crore)	Remarks
1	Kotak Mahindra Bank	25.00	CC Limit; Sub-limit of Rs.20.00 crore for WCDL/STL and Rs.15.00 crore for BG
	Total	**25.00**	

BG – Bank Guarantee; CC – Cash Credit; STL – Short Term Loan; WCDL – Working Capital Demand Loan

Total long term / short term facilities …. (1. A.) **Rs.25.00 crore**

2. Short term facilities
2. A. Non-fund based limits

Sr. No.	Name of Bank	Amount (Rs. crore)	Remarks
1	Kotak Mahindra Bank	7.50	BG Limit; Max. tenure of 12 months; Sub-limit of Rs.1.40 crore for SBLC
	Total	**7.50**	

BG – Bank Guarantee; SBLC – Standby Letter of Credit

Total short term facilities …. (2. A.) **Rs.7.50 crore**

Total Facilities rated: Rs.32.50 crore

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(This follows our brief rationale for entity published on 13 April, 2017)

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