Jagatjit Industries Limited

October 31, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Fund Based – LT – Term Loan & CC (Proposed)	4.00 (90.00)	**CARE B; Stable (Single B; Outlook: Stable)**	**Revised from CARE D; and removed from issuer not cooperating**
Long-term / Short-term Bank Facilities (Proposed)	1.00 (20.00)	**CARE B; Stable / CARE A4 (Single B; Outlook: Stable / A Four)**	**Revised from CARE D; and removed from issuer not cooperating**

Detailed Rationale & Key Rating Drivers

The revision in ratings takes into account JIL being able to meet its debt obligations via sale of assets and loans from group companies in order to service the interest and principal repayments. However, the ratings continue to remain constrained by declining scale of operations coupled with continuous cash losses and an adverse capital structure. Presence of JIL in a highly competitive and regulated industry further weakens the credit profile.

The ratings derive comfort from experienced promoters and established brand image of company's brands in Indian market. The ratings also factors in company's ongoing strategy to shift to a completely royalty based model in order to drive profitability.

Rating Sensitivities

Positive Factors

- Ability to successfully transform from manufacturing to profitable royalty based business
- Any significant reduction in debt

Negative Factors

- Continuation of cash losses and inability to raise with funds through sale of assets and group entities
- Discontinuation / non-renewal of any rental property leases

Detailed description of the key rating drivers

Key Rating Weaknesses

Declining scale of operations with continued business losses

TOI of the company, continuously decreasing past 3 consecutive FYs, has decreased by around 30% in FY19 to Rs.272.82 Cr in comparison to Rs. 396.45 Cr in FY18. Decline in revenue is mainly due to operational issues and the shift of the company to royalty model, due to which it is only recognizing the royalty income.

Reliance on debt with adverse capital structure

JIL has an adverse capital structure with total debt from banks and NBFCs of Rs. 213.13 crore as of October 15, 2019. Of this Rs. 199.63 crore is in form of lease rental discounting and being serviced via rental income received by the company. The net worth stood at negative Rs. 171.25 crore as on March 31, 2019 due to losses accumulated over the years.

Further, the company has unsecured loans from group companies which are repayable after 5 years.

High Competitive Intensity

The domestic IMFL industry is characterized by high competitive intensity, with presence of large players. This could restrict growth of the company to extent, although JIL's established brands are a positive for the company and mitigating competitive risks.

Highly regulated industry

The industry is highly regulated and is subject to a complex tax structure. From manufacturing through distribution, pricing and advertising, restrictions prevail. Both export and import of these products are also tightly controlled by the respective state government.

Any changes in state government policies towards liquor consumption or prohibition would significantly impact JIL's revenue.

Key Rating Strengths

Experienced Management with long track record of operations

JIL was incorporated in August 1944 by Late Mr L P Jaiswal. Company is presently managed by Mr Ravi Manchanda as Managing director of the company. Other directors are Ms Kiran Kapur, Ms Anjali Varma and Ms Sonya Jaiswal.

Mr. Ravi Manchanda aged about 63 years is an engineering graduate and post graduate in Marketing, having vast experience in the field of Project Management and Administration. He is also holding directorship in Grand Regency Hospitalities Pvt.

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

Ltd, Ispace Developers Pvt. Ltd, Jagatjit Bottlers Pvt. Ltd, Vasu Realcon Pvt. Ltd, Axis Buildwell Pvt. Ltd, Gaiety Infracon Pvt. Ltd and Fortune Infratech Pvt. Ltd.
Mrs. Kiran Kapur aged about 68 years is having over three decades of experience in business administration and management.
Mrs. Anjali Varma aged about 56 years is a Graduate and has around twenty years of experience in the field of Accounts, Taxation and Administration. She is also holding directorship in Mata Construction and Builders Pvt. Ltd and G. Management Services Pvt. Ltd.
Ms. Sonya Jaiswal is a graduate and has business and administrative experience of about thirty years. She is well versed with the nuances of business management, hospitality and marketing. She is also director of Karnal Distillery Company Limited.

Established Presence in the domestic IMFL market
JIL has an established presence in the domestic Indian made foreign liquor market through its Flagship brand, Aristocrat, with operational track of over five decades. However, the sales volume of its liquor business has been declining on account of operational issues. But, still due to the long track record of operations, company has a strong presence of brands such as ARISTOCRAT, ARISTOCRAT PREMIUM, AC BLACK, BONNIE SPECIAL, BINNIES and AC SEKC available across the country. The company has now switched to a royalty based and contract manufacturing model.

Transformation strategy to improve financial performance of company
The company has adopted the royalty model in as it was facing operational issues due to higher cost of manufacturing, problems in working capital management etc. Under Royalty model, JIL has given the right to use its brand name to local players in the respective states and has started charging royalty fee. In FY19, the company has royalty income of Rs.14.14 Cr which is expected to increase in coming FYs. This has also resulted in lower working capital requirement for the company.

Liquidity: Poor
The company has a closed down its working capital limits with banks. Despite of the losses incurred by the company in consecutive FYs, company has taken various steps like disposing off its assets, refinancing of loans, etc. to maintain sufficient liquidity to meet its repayment obligations timely. However, because of the continuing cash losses JIL is highly dependent on timely infusion of funds (via sale of assets, loan from group companies, etc.)

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
Jagatjit Industries Ltd. was promoted by Mr. L.P. Jaiswal and primarily involved in manufacturing and distribution of IMFL under its flagship brand, Aristocrat, in the domestic market company has a strong presence of brands such as ARISTOCRAT, ARISTOCRAT PREMIUM, AC BLACK, BONNIE SPECIAL, BINNIES and AC SEKC available across the country. The company has shifted to a royalty based and contract manufacturing model.
Company is also engaged in manufacturing of malted milk foods & dairy products. Moreover, JIL has leased commercial properties in Gurgaon (Haryana) and New Delhi which provide rental income of Rs. 24.55 Cr in FY19.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	396.45	272.82
PBILDT	-7.04	13.16
PAT	-70.11	-64.72
Overall gearing (times)	NM	NM
Interest coverage (times)	-0.13	0.1

A: Audited, NM: Not Meaningful.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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-Cash Credit	-	-	-	2.00	CARE B; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	1.00	CARE B; Stable / CARE A4
Fund-based - LT-Term Loan	-	-	-	2.00	CARE B; Stable

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	2.00	CARE B; Stable	1)CARE D; ISSUER NOT COOPERATING* (17-Jun-19)	1)CARE B+; Stable; ISSUER NOT COOPERATING* (29-Mar-19) 2)CARE B+; Stable (04-Apr-18)	-	-
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	1.00	CARE B; Stable / CARE A4	1)CARE D / CARE D; ISSUER NOT COOPERATING* (17-Jun-19)	1)CARE B+; Stable / CARE A4; ISSUER NOT COOPERATING* (29-Mar-19) 2)CARE B+; Stable / CARE A4 (04-Apr-18)	-	-
3.	Fund-based - LT-Term Loan	LT	2.00	CARE B; Stable	1)CARE D; ISSUER NOT COOPERATING* (17-Jun-19)	1)CARE B+; Stable; ISSUER NOT COOPERATING* (29-Mar-19) 2)CARE B+; Stable (04-Apr-18)	-	-

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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