

Jagatjit Industries Ltd

Mar 29, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	90.00	CARE B+; Stable; ISSUER NOT COOPERATING * (Single B Plus; Outlook: Stable ;ISSUER NOT COOPERATING*)	Issuer not cooperating; Based on best available information
Long-term/Short-term Bank Facilities	20.00	CARE B+; Stable/CARE A4; ISSUER NOT COOPERATING (Single B Plus; Outlook: Stable/A Four; ISSUER NOT COOPERATING)	Issuer not cooperating; Based on best available information
Total	110.00 (Rs. One hundred and ten crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Jagatjit Industries Ltd to monitor the rating vide e-mail communications dated Feb 26, 2019; Feb 27, 2019 & Mar 22, 2019 and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating on Jagatjit Industries bank facilities will now be denoted as **CARE B+;Stable/ CARE A4; ISSUER NOT COOPERATING***.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The ratings takes into account weak financial performance as reflected by the decline in operating income and continuous losses during FY18.

Detailed description of the key rating drivers

At the time of last rating on Mar 31, 2018, the following were the rating weaknesses and strengths:

Key Rating Weaknesses

Declining scale of operations with continued business losses

The total operating income of the company has declined continuously for the last three years owing to shift to franchise model instead of own volumes in the South India. The company has extended the rights to manufacture under its brand to third parties and is only charging royalty on per case basis. With the new royalty strategy, there has been improvement in the operating performance as reflected in the reduction in losses from Rs.101.5cr in FY17 to Rs.48cr in 9MFY18.

Reliance on debt & sale of existing non-core assets

As on March 31, 2017, JIL has a capital structure more reliant towards total debt component of Rs.284.41 Cr and tangible net-worth of (Rs.34.05 Cr) on account of continuous losses incurred by the company in past financial years. Owing to continuing losses the company has to resort to incremental financing and sale of its non-core assets. Considering this the company has taken debt of Rs.266 Cr during FY18 to repay its high cost debt and manage its liquidity position. Also the company has entered into an agreement to sell one of its properties for sale value of Rs.65 Cr of which it has already received Rs.25 Cr in FY18 and balance Rs.40 Cr is expected to be received in H1FY19. Also going forward the company has proposed to sell its other non-core assets to improve on its liquidity position.

High Competitive Intensity

The domestic IMFL industry is characterized by high competitive intensity, with presence of large players. However, JIL's established brands are a key positive for the company and helping them in mitigating the competitive risks.

Volatility in input cost could affect margins

JIL's margin are dependent on input price trends of major raw materials like molasses, extra-neutral alcohol (ENA) and glass in the absence of corresponding flexibility with consumers; GST is expected to have increase in packaging and

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

molasses cost for the company. However, the same has been mitigated to a large extent on the back of productivity-led initiatives taken up by the company to improve its margins. The company is also exposed to volatility in the agro commodities viz. Grain for which price fluctuation is higher depending on demand and supply in the market. The highly competitive nature of Liquor and ENA industry hinders company's ability to pass on changes in raw material prices to the end customer.

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. The year 2017 was riddled with policy changes including demonetisation, Supreme Court's highway liquor sales ban and implementation of goods and services tax (GST) that pushed up input costs & also put volumes under the pump. Any changes in state government policies toward liquor consumption or prohibition would impact JIL's revenue.

Key Rating Strengths

Experienced & Qualified 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 Jaiswai. Mr. Ravi Manchanda, an engineering graduate and post graduate in Marketing, have vast experience in the field of Project Management and Administration. He is also holding directorship in Grand Regency Hospitalities Pvt. 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. Other directors of the company also have rich experience with good qualification.

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, which accounts for ~90% of JIL's revenues, has been declining on account of operational issues which limited the promotional activities. But, still due to the long track record of operations, company has a market share of around 10% of IMFL industry with ARISTOCRAT, ARISTOCRAT PREMIUM, AC BLACK, BONNIE SPECIAL, BINNIES and AC SEKC as the leading brands available across the Country.

Strong transformation and growth strategy to improve financial performance of company

To recover from losses incurred in consecutive FYs and to deliver profit, JIL has undertaken some transformation and growth strategies that includes adoption of Royalty model in certain states with high taxation where it was also facing operational issues. Also, company adopted contract manufacturing method in Jammu & Kashmir so as to achieve economies of scale resulting in lower cost of manufacturing and has closed some of its inefficient manufacturing units. As a result of implementation of above strategies there has been marginal improvement in the performance of the company with PBILDT of Rs.5.06 Cr during 9MFY18 as compared to PBILDT loss of Rs.6.99 Cr during 9MFY17.

Analytical approach: Standalone

Applicable Criteria

Policy in respect of Non-cooperation by issuer
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 is primarily involved in manufacturing and distribution of IMFL under its flagship brand, Aristocrat, in the domestic market. JIL also manufactures country liquor in Punjab. Liquor sales account for ~90% of the company's total sales. The Company has a market share of around 10% of IMFL industry with ARISTOCRAT, ARISTOCRAT PREMIUM, AC BLACK, BONNIE SPECIAL, BINNIES and AC SEKC as the leading brands available across the Country. Country liquor is manufactured and sold in the State of Punjab and the Company has market share of around 12% in the state of Punjab.

Company is also engaged in manufacturing of Malted milk foods & dairy products which accounts ~6% of company's total sales. Moreover, JIL has leased commercial properties in Gurgaon (Haryana) and New Delhi which provide rental income of Rs.19.64 Cr in FY17.

Brief Financials (Rs. crore)	FY17 (A)	FY18(A)
Total operating income	524.28	396.45
PBILD	-34.55	-7.04
PAT	-96.69	-70.11
Overall gearing (times)	1.20	2.03
Interest coverage (times)	-0.70	-0.13

A: Audited

Liquidity

Pressure on the company's liquidity position is corroborated from its stretched payable position as well as reduced free cash balances and lower cushion in working capital limits vis-a-vis drawing power available.

Status of non-cooperation with previous CRA: NA

Any other information: NA

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.

Analyst Contact

Name: Amit Jindal

Tel: 011-45333242

Mobile: 9873003949

Email: amit.jindal@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	-	60.00	CARE B+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
Non-fund-based - LT/ST-BG/LC	-	-	-	20.00	CARE B+; Stable / CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
Fund-based - LT-Term Loan	-	-	-	30.00	CARE B+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information

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-Cash Credit	LT	60.00	CARE B+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	1)CARE B+; Stable (04-Apr-18)	-	-	-
2.	Non-fund-based - LT/ST-BG/LC	LT/ST	20.00	CARE B+; Stable / CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	1)CARE B+; Stable / CARE A4 (04-Apr-18)	-	-	-
3.	Fund-based - LT-Term Loan	LT	30.00	CARE B+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	1)CARE B+; Stable (04-Apr-18)	-	-	-

CONTACT**Head Office Mumbai**

Ms. Meenal Sikchi
 Cell: + 91 98190 09839
 E-mail: meenal.sikchi@careratings.com

Ms. Rashmi Narvankar
 Cell: + 91 99675 70636
 E-mail: rashmi.narvankar@careratings.com

Mr. Ankur Sachdeva
 Cell: + 91 98196 98985
 E-mail: ankur.sachdeva@careratings.com

Mr. Saikat Roy
 Cell: + 91 98209 98779
 E-mail: saikat.roy@careratings.com

CARE Ratings Limited**(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com**AHMEDABAD**

Mr. Deepak Prajapati
 32, Titanium, Prahaladnagar Corporate Road,
 Satellite, Ahmedabad - 380 015
 Cell: +91-9099028864
 Tel: +91-79-4026 5656
 E-mail: deepak.prajapati@careratings.com

BENGALURU

Mr. V Pradeep Kumar
 Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
 No. 30, M.G. Road, Bangalore - 560 001.
 Cell: +91 98407 54521
 Tel: +91-80-4115 0445, 4165 4529
 Email: pradeep.kumar@careratings.com

CHANDIGARH

Mr. Anand Jha
 SCF No. 54-55,
 First Floor, Phase 11,
 Sector 65, Mohali - 160062
 Chandigarh
 Cell: +91 85111-53511/99251-42264
 Tel: +91- 0172-490-4000/01
 Email: anand.jha@careratings.com

CHENNAI

Mr. V Pradeep Kumar
 Unit No. O-509/C, Spencer Plaza, 5th Floor,
 No. 769, Anna Salai, Chennai - 600 002.
 Cell: +91 98407 54521
 Tel: +91-44-2849 7812 / 0811
 Email: pradeep.kumar@careratings.com

COIMBATORE

Mr. V Pradeep Kumar
 T-3, 3rd Floor, Manchester Square
 Puliakulam Road, Coimbatore - 641 037.
 Tel: +91-422-4332399 / 4502399
 Email: pradeep.kumar@careratings.com

HYDERABAD

Mr. Ramesh Bob
 401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
 Hyderabad - 500 029.
 Cell : + 91 90520 00521
 Tel: +91-40-4010 2030
 E-mail: ramesh.bob@careratings.com

JAIPUR

Mr. Nikhil Soni
 304, Pashupati Akshat Heights, Plot No. D-91,
 Madho Singh Road, Near Collectorate Circle,
 Bani Park, Jaipur - 302 016.
 Cell: +91 – 95490 33222
 Tel: +91-141-402 0213 / 14
 E-mail: nikhil.soni@careratings.com

KOLKATA

Ms. Priti Agarwal
 3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
 10A, Shakespeare Sarani, Kolkata - 700 071.
 Cell: +91-98319 67110
 Tel: +91-33- 4018 1600
 E-mail: priti.agarwal@careratings.com

NEW DELHI

Ms. Swati Agrawal
 13th Floor, E-1 Block, Videocon Tower,
 Jhandewalan Extension, New Delhi - 110 055.
 Cell: +91-98117 45677
 Tel: +91-11-4533 3200
 E-mail: swati.agrawal@careratings.com

PUNE

Mr. Pratim Banerjee
 9th Floor, Pride Kumar Senate,
 Plot No. 970, Bhamburda, Senapati Bapat Road,
 Shivaji Nagar, Pune - 411 015.
 Cell: +91-98361 07331
 Tel: +91-20- 4000 9000
 E-mail: pratim.banerjee@careratings.com

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