

## Jai Bhagwan Ji Food Products

May 14, 2019

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	6.09	<b>CARE B+; Stable</b> [Single B Plus; Outlook: Stable]	Assigned
Short Term Bank Facilities	0.75	<b>CARE A4</b> [A Four]	Assigned
<b>Total</b>	<b>6.84</b> <b>(Rupees Six crore and Eighty Four lakh only)</b>		

Details of instruments/facilities in Annexure - I

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Jai Bhagwan Ji Food Products (JBFP) are primarily constrained on account of its short track record of operations with low profitability, moderate capital structure and debt coverage indicators along with modest liquidity position during FY18 (FY refers to the period April 1 to March 31). The ratings also factor in JBFP's partnership nature of constitution, susceptibility of its profit margins to volatility in raw material prices along with its presence in seasonal and fragmented nature of industry subject to government regulations.

The ratings, however, derive strength from experienced partners in rice processing business.

The ability of JBFP to increase its scale of operations along with an improvement in overall financial risk profile marked by an improvement in its profit margins, capital structure and debt coverage indicators along with efficient working capital management are the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

#### **Short track record of operations post completion of Capex in FY17 along with low profitability during FY18**

JBFP commenced its rice sorting and polishing operations from August 2016 onwards post completion of its capex, thus FY18 is the first full year of operations. The scale of operations of JBFP as marked by total operating income (TOI) remained modest at Rs.14.27 crore during FY18 as against Rs.0.99 crore for its 8 months of operations during FY17. The profitability of JBFP as marked by PBILDT remained low at Rs.0.86 crore (6.02%) for FY18 as against Rs.0.07 crore (7.40%) during FY17, while PAT also remained thin at Rs.0.09 crore (0.66%) in FY18 as against Rs.0.01 crore (1.27%) in FY17.

#### **Moderate capital structure and debt coverage indicators**

The capital structure of JBFP remained moderate as marked by an overall gearing ratio at 2.28 times as on March 31, 2018 as against 3.44 times as on March 31, 2017, owing to increase in tangible net worth base of the firm.

The debt protection metrics as marked by total debt to Gross Cash Accruals (TDGCA) also remained moderate at 7.28 years as on March 31, 2018 on account of high total debt level of the firm as on balance sheet date coupled with low GCA level for FY18. Further, interest coverage ratio also remained moderate at 2.12 times in FY18 as against 1.21 times in FY17.

#### **Modest liquidity position**

The liquidity position of JBFP remained modest marked by current ratio at 1.04 times as on March 31, 2018 as against 0.75 times as on March 31, 2017. The average utilization of working capital borrowings for the past 12 months ended January 31, 2019 remained high at 95% for availed cash credit limit. However, operating cycle of JBFP remained moderate at 32 days during FY18. The cash and bank balance of JBFP remained low at Rs.0.19 crore as on March 31, 2018 while net cash flow from operating activities in FY18 remained negative at Rs.0.33 crore owing to blockage of the funds in inventory and trade receivables.

#### **Constitution as a partnership firm**

JBFP being a partnership firm is exposed to inherent risk of partners' capital being withdrawn at the time of personal contingency which may put pressure on financial flexibility of the firm.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

***Susceptibility of its profit margins to volatility in raw material prices along with its presence in seasonal and fragmented nature of industry which is subject to government regulations***

Monsoons have a huge bearing on crop availability which determines the prevailing paddy prices. Since, there is a long time lag between raw material procurement and liquidation of inventory, the firm is exposed to the risk of adverse price movement, resulting in lower realization than expected.

Also, the commodity nature of the rice makes the industry highly fragmented with numerous players operating in the unorganized sector with very less product differentiation. Moreover, the raw material (paddy) prices are regulated by the government mainly through Minimum Support Price (MSP), which in turn limits the bargaining power of the paddy processors.

**Key Rating Strength**

***Experienced partners in rice processing industry***

Mr. Manojkumar Sahajwani aged 43 years has an experience of around 7 years in same line of business and looks after the overall management of JBFP, along with other two partners Mr. Mohit Sahajwani and Mr. Inderkumar Sahajwani. Mr. JaiKumar Sahajwani who has an extensive experience of 10 years in the same line of business also provides guidance and support to the management. JBFP bags orders from various commodity dealers, traders, retailers, shopkeepers and other small establishments via brokers, primarily set up within the state of Gujarat, Rajasthan and M.P. with the help of its own established marketing network.

**Analytical Approach:** Standalone

**Applicable Criteria**

[Rating Methodology-Manufacturing Companies](#)

[Criteria on assigning Outlook to Credit Ratings](#)

[Criteria for Short Term Instruments](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

**About the Firm**

Sihora - based (Madhya Pradesh (M.P.)) JBFP was formed as partnership firm on August 15, 2016 by Mr. Manojkumar Sahajwani, Mr. Inderkumar Sahajwani and Mr. Mohit Sahajwani. JBFP commenced its manufacturing operations for sorting and polishing of non- basmati rice from August 2016 onwards, from its manufacturing plant located at Sihora, M.P., having an installed capacity of 9 Metric tons per day (MTPD) as on March 31, 2018. It procures paddy and unpolished rice mainly from local traders of M.P. and Uttar Pradesh (U.P.) and sells the sorted and polished rice domestically, majorly in the state of M.P., Gujarat, Rajasthan and Maharashtra via brokers, while it sells directly under the brand name '935 Gold'. Further, it also trades in rice and paddy according to market opportunities. Waste and by-product during manufacturing of rice are sold as a cattle-feed in local mandis. Further, JBFP also trades in Gram and Gram dal as a commission agent. The associate concerns of JBFP include M/s. Jai Bhawani Traders, M/s. Jai Gurudev Food Products, M/s. Jaidev Kirana Stores which are also engaged in the agro-commodities related businesses.

<b>Brief Financials (Rs. crore)</b>	<b>^FY17 (A)</b>	<b>FY18 (A)</b>
Total operating income	0.99	14.27
PBILDT	0.07	0.86
PAT	0.01	0.09
Overall gearing (times)	3.44	2.28
Interest coverage (times)	1.21	2.12

A: Audited, ^Operations commenced from August, 2016

YTD December 31, 2018(Provisional), JBFP has reported a TOI of around Rs.13.65 crore.

**Status of non-cooperation with previous CRA:** Not Applicable

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

**Analyst Contact**

Name: Mr Kalpesh Patel  
 Tel: (079) 40265611  
 Mobile: +91-9909026322  
 Email: [kalpesh.patel@careratings.com](mailto:kalpesh.patel@careratings.com)

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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-Long Term	-	-	November, 2023	1.21	CARE B+; Stable
Fund-based - LT-Cash Credit	-	-	-	4.88	CARE B+; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	0.75	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 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-Long Term	LT	1.21	CARE B+; Stable	-	-	-	-
2.	Fund-based - LT-Cash Credit	LT	4.88	CARE B+; Stable	-	-	-	-
3.	Non-fund-based - ST-Bank Guarantees	ST	0.75	CARE A4	-	-	-	-

**CONTACT****Head Office Mumbai**

**Ms. Meenal Sikchi**  
 Cell: + 91 98190 09839  
 E-mail: [meenal.sikchi@careratings.com](mailto:meenal.sikchi@careratings.com)

**Mr. Ankur Sachdeva**  
 Cell: + 91 98196 98985  
 E-mail: [ankur.sachdeva@careratings.com](mailto:ankur.sachdeva@careratings.com)

**Ms. Rashmi Narvankar**  
 Cell: + 91 99675 70636  
 E-mail: [rashmi.narvankar@careratings.com](mailto:rashmi.narvankar@careratings.com)

**Mr. Saikat Roy**  
 Cell: + 91 98209 98779  
 E-mail: [saikat.roy@careratings.com](mailto: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](mailto: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](mailto:deepak.prajapati@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](mailto:ramesh.bob@careratings.com)

**BENGALURU**

**Mr. V Pradeep Kumar**  
 Unit No. 205 -208, 2nd Floor, Prestige Meridian 1, No. 30,  
 M. G. Road, Bengaluru - 560001  
 Cell: +91 98407 54521  
 Tel: +91-80-46625555  
 Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@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](mailto:nikhil.soni@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](mailto:anand.jha@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](mailto:priti.agarwal@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](mailto:pradeep.kumar@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](mailto:swati.agrawal@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](mailto:pradeep.kumar@careratings.com)

**PUNE**

**Mr. Aakash Jain**  
 9th Floor, Pride Kumar Senate,  
 Plot No. 970, Bhamburda, Senapati Bapat Road,  
 Shivaji Nagar, Pune - 411 015.  
 Cell: +91-81064 00001  
 Tel: +91-20- 4000 9000  
 E-mail: [aakash.jain@careratings.com](mailto:aakash.jain@careratings.com)

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