

## Jai Karni Suitings Private Limited

March 14, 2019

### Rating

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long-term Bank Facilities	11.72	CARE BB-; Stable (Double B Minus; Outlook : Stable)	Reaffirmed
Short-term Bank Facilities	0.40	CARE A4 (A Four)	Reaffirmed
<b>Total</b>	<b>12.12</b> <b>(Rupees Twelve crore and twelve lakhs only)</b>		

### Detailed Rationale & Key rating Drivers

The ratings assigned to the bank facilities of Jai Karni Suitings Private Limited (JSPL) continue to remain constrained on account of modest scale of operations and financial risk profile marked by weak solvency and working capital intensive nature of the business. The ratings, further, continues to remain constrained on account of highly fragmented nature of the textile industry leading to intense competition and vulnerability of margins to fluctuation in the raw material prices.

The ratings, however, continue to favourably take into account experienced management with long track record of operations in the textile industry, established marketing and distribution network and presence in the textile cluster of Bhilwara with ease access of job work and labour. The ratings, further, continue to derive strength from moderate profitability margins.

The ability of JSPL to continuously improve its scale of operations with improvement in solvency position and better management of working capital would be the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Weakness

##### *Modest scale of operations*

During FY18, TOI of the company has improved by 3.26% over FY17 although stood modest, owing to higher sales volume and high job work receipts. During FY18, JSPL earned 92.23% of TOI from domestic sale of finished fabrics (92.68% in FY17), while 7.77% of TOI from manufacturing of fabrics on job work basis (7.32% in FY17).

##### *Weak solvency position*

The capital structure of the company has remained leveraged at 2.21 times as on March 31, 2018, improved from 2.49 times as on March 31, 2017 mainly on account of accretion of profits to general reserves and infusion of share capital coupled with schedule repayment of term loan which offset to some extent with higher utilization of working capital bank borrowings. Further, debt service coverage indicators stood moderate with total debt to GCA stood at 8.34 times as on March 31, 2018, improved from 9.54 times as on March 31, 2017 attributing to increase in GCA level. Further, interest coverage stood moderate at 2.17 times in FY18 on account of lower interest and finance charges and higher PBILDT.

##### *Working capital intensive nature of the business*

Liquidity as indicated by current ratio remained moderate at 1.48 times as on March 31, 2018, however, quick ratio remained below unity at 0.86 times as on March 31, 2018 due to higher inventory holding. During FY18, the operating cycle stood elongated at 112 days as against 99 days in FY17, mainly on account of higher inventory as well as higher collection period. The average fund-based working capital utilization also remained 80-90% during the last 12 months ended January, 2019. Further, the cash flow from operating activities has improved from cash flow of Rs.1.07 crore in FY17 to cash flow of Rs.1.70 crore in FY18 due to lower working capital gap. The cash and bank balance of the company as on March 31, 2018 stood at Rs. 0.03 Crore.

##### *Highly fragmented nature of textile industry leading to intense competition and vulnerability of margins to fluctuation in raw material prices*

Textile industry in India is highly fragmented and dominated by a large number of independent and small scale unorganized players leading to high competition among industry players. Smaller companies are more vulnerable to intense competition and have limited pricing flexibility, which constrains their profitability as compared to larger companies who have better efficiencies and pricing power considering their scale of operations. Further, due to fragmented nature of the industry, ability of the firm to pass on the increase in raw material prices to end customers is

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

limited and is usually accompanied by a time lag. The profitability of JSPL thus remains susceptible to any adverse fluctuations in the raw material prices.

### Key Rating Strengths

#### **Experienced management with long track record of operations in the textile industry and infusion of share capital with strong group support**

JSPL was incorporated in the year 1993 and hence, has a track record of more than two decades in the industry. Mr. Mahavir Jhanwar, Director, has more than two decades of experience in the textile industry and looks after overall affairs of the company. He is assisted by Mr. Abhishek Jhanwar, director and has a decade of experience in the industry. Further, top management is assisted by its second tier management who manages the company. With the long standing experience in the textile industry the company has established relations with customers and suppliers.

The management keeps on participating in the domestic trade fairs and exhibitions being held in the country. During FY18, the promoters of the company have infused share capital of Rs.1.65 crore.

#### **Moderate profitability margins**

Owing to high job work receipt, PBILDT margin has improved by 186 bps in FY18 over FY17. With improvement in PBILDT margin although offset to an extent on account of high depreciation, PAT margin has improved by 37 bps in FY18 over FY17. The GCA level of JSPL has also increased by 48.76% in FY18 and registered Rs. 1.81 Crore. The profitability of the company stood comfortable with PBILDT and PAT margin of 13.32% and 2.57% respectively in FY18.

#### **Established marketing and distribution network**

Being present in the industry since 1993, JSPL has established a network of 100 dealers/distributors which are spread across India mainly in Uttar Pradesh (UP), Bihar, Haryana, Punjab, Madhya Pradesh (MP), Andhra Pradesh (AP), Delhi and Rajasthan. The company provides credit period of 40-70 days to the agents. With the dedicated marketing effort of Mr Abhishek Jhanwar, JSPL was able to garner reasonable revenue growth in the past. The established distribution network is expected to provide the required strength for the future growth.

#### **Presence in textile cluster of Bhilwara with ease access of job work and labour**

The manufacturing facility of the company is located at Bhilwara (Rajasthan) which is one of the largest textile clusters in India and majority of these industries are engaged in the manufacturing synthetic yarn accounting for nearly 40% of India's total synthetic yarn production and nearly 50% of India's total polyester fabrics and suiting production. JSPL's presence in the textile manufacturing region results in benefit derived from continuous business from the textile manufacturers, low transportation cost both on transportation and storage, easy availability of raw materials as well as skilled/unskilled labor and procurement of raw materials at effective prices.

#### **Analytical Approach:** Standalone

#### **Applicable Criteria**

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

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

[Rating Methodology - Manufacturing Companies](#)

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

#### **About the company**

Bhilwara based (Rajasthan) Jai Karni Suitings Private Limited (JSPL) was incorporated in 1993 by Mr. Mahavir Jhanwar and Mr. Abhishek Jhanwar. JSPL is engaged in the business of manufacturing of men's suiting which JSPL get it done on job work basis from other process house. The company is also engaged in the business of trading of grey and finished fabrics. The company has total installed capacity of 60 LMPA (Lakh meters per annum) as on March, 2018. The company markets its product through 100 dealers in all over India; major states are Uttar Pradesh (UP), Bihar, Haryana, Punjab, Madhya Pradesh (MP), Andhra Pradesh (AP), Rajasthan and Delhi. Further, JSPL procures raw material (cotton and synthetic yarn) from Rajasthan, Madhya Pradesh and Hyderabad.

The promoters have also promoted, Jai Karni Fabrics Private Limited (JKPL), which is engaged in the business of financing the firms located in Bhilwara and Jai Karni Yarns Agencies (JKY; Proprietor: Mr. Abhishek Jhanwar) which is engaged in the business of trading of yarns.

(In Crore)

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	24.31	25.11
PBILDT	2.78	3.34
PAT	0.53	0.64
Overall gearing (times)	2.49	2.21
Interest coverage (times)	1.79	2.17

A-Audited

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

**Any other information:** None

**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](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.

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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-Term Loan	-	-	October, 2025	7.72	CARE BB-; Stable
Fund-based - LT-Cash Credit	-	-	-	4.00	CARE BB-; Stable
Fund-based - ST-Standby Line of Credit	-	-	-	0.40	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 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-Term Loan	LT	7.72	CARE BB-; Stable	-	1)CARE BB-; Stable (26-Mar-18)	1)CARE B+; Stable (22-Mar-17) 2)CARE B+ (04-Apr-16)	-
2.	Fund-based - LT-Cash Credit	LT	4.00	CARE BB-; Stable	-	1)CARE BB-; Stable (26-Mar-18)	1)CARE B+; Stable (22-Mar-17) 2)CARE B+ (04-Apr-16)	-
3.	Fund-based - ST-Standby Line of Credit	ST	0.40	CARE A4	-	1)CARE A4 (26-Mar-18)	1)CARE A4 (22-Mar-17) 2)CARE A4 (04-Apr-16)	-

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