

Jayatma Industries Limited

August 07, 2020

Ratings

Facilities	Amount (Rs. Crore)	Rating ¹	Rating Action
Long Term Bank Facilities	15.00	CARE B; Stable; ISSUER NOT COOPERATING* (Single B; Outlook: Stable; ISSUER NOT COOPERATING*)	Issuer not cooperating; Revised from CARE B+; Stable; ISSUER NOT COOPERATING* (Single B Plus; Outlook: Stable; ISSUER NOT COOPERATING*); Based on best available information
Long Term/ Short Term Bank Facilities	14.50	CARE B; Stable/ CARE A4; ISSUER NOT COOPERATING* (Single B ; Outlook: Stable/ A Four; ISSUER NOT COOPERATING*)	Issuer not cooperating; Revised from CARE B+; Stable/ CARE A4; ISSUER NOT OPERATING* (Single B Plus/ A Four; ISSUER NOT COOPERATING*); Based on best available information
Total	29.50 (Rupees Twenty Nine Crore and Fifty Lakh only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE had, vide its press release dated November 15, 2019, placed the ratings of Jayatma Industries Limited (JIL) under the 'issuer non-cooperating' category as JIL had failed to provide information for monitoring of the ratings and had not paid the surveillance fees for the rating exercise as agreed to in its rating agreement. JIL continues to be non-cooperative despite repeated requests for submission of information through e-mail and a letter dated July 22, 2020. 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.

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 revision in the long-term rating assigned to the bank facilities of JIL takes into account of weakened debt coverage indicators during FY20 over FY19 on the back of decline in gash accruals and increase in interest cost. Moreover, the revision in rating also factors in non-availability of requisite information including the latest liquidity due to non-cooperation of issuer with CARE's efforts to undertake a review of the outstanding ratings.

The ratings continue to remain constrained on account of its thin profitability in light of limited value addition in cotton ginning business, working capital intensive operations, susceptibility of its operating margin to volatile cotton prices and presence in highly fragmented cotton ginning industry coupled with impact of changes in government policy on cotton. The ratings also take cognizance of adverse impact of covid-19 pandemic on textile sector. Moreover, the details regarding the moratorium are not known to CARE due to lack of information.

The ratings, however, favourably take into consideration the vast experience of the promoters in the cotton ginning business, JIL's strategic location within the cotton producing region of Gujarat and its association with reputed clientele.

Detailed description of the key rating drivers

At the time of last rating on November 15, 2019, the following were the rating strengths and weaknesses: (updated based on best available information i.e. financial results for quarter and year ended March 31, 2020 published on stock exchange).

Key Rating Weaknesses

Weak financial risk profile marked by modest scale of operation and thin profitability: TOI of JIL declined by 23% on y-o-y basis and stood modest at Rs.117 crore during FY20 as compared to Rs.151 crore during FY19 majorly due to sluggish export and domestic demand for cotton and cotton yarn. Historically, the scale of operation of JIL remained modest and volatile. The operating profitability continued to remain thin primarily on account of the company's presence in the lowest segment of the cotton textile value-chain with limited value addition. PBILDT margin of the company improved

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

*Issuer did not cooperate; Based on best available information

marginally by 61 bps and stood thin at 2.46% during FY20 as compared to 1.86% in FY19. However, the PAT margin declined by 18 bps and stood very thin at 0.15% in FY20 on account of higher finance cost during FY20 as compared to FY19. Moreover, the gross cash accruals (GCA) of the company also declined by 48% to Rs.0.43 crore in FY20 over FY19. Due to decline in GCA and increase in interest and finance cost led to deterioration in debt coverage indicators in FY20.

Susceptibility of operating margins to volatile cotton prices: Raw cotton is the key raw material for ginning and pressing activities. Prices of raw cotton are highly volatile in nature. Cotton ginners usually procure raw materials in large volumes to bargain bulk discount from suppliers hence, the volatility in cotton price along with the high inventory requirements results in high susceptibility of operating margins to cotton price fluctuations.

Working capital intensive operations: Due to seasonal nature of business, JIL is required to keep minimum amount of inventory to serve the demand in non-season period. Apart from this, having low bargaining power with its reputed customers, JIL needs to extend high credit which further enhances the working capital requirement. Capital structure of the company continue to remain moderately leveraged marked by overall gearing of 1.34 times as on March 31, 2020 largely on account of higher reliance on working capital borrowing to support the operation coupled with relatively small tangible net-worth.

Presence in highly fragmented cotton ginning industry and government regulations: Cotton ginning business involves very limited value addition and is highly dominated by small and medium scale units resulting in highly fragmented nature of the industry. Moreover, the competition in the ginning industry remains stiff restricting the profitability margins. Furthermore, Government policies with regard to minimum support price (MSP) and export-import policy affect cotton prices.

Adverse impact of covid-19 pandemic on textile sector: The whole textile chain has been severely affected globally. The closure of retail stores and malls on account of lockdown situation across the nation will affect textile industry's sales. On the International front, spread of Covid-19 in top export destinations such as Europe and US (together accounting for about 60% of the total apparel exports) has resulted into closure of retail stores and malls there. Even after the lockdown is lifted, gradual and delayed recovery is likely in consumer demand given the relatively discretionary nature of the apparel products in the backdrop of likely economic slowdown. There may be a cascading impact on demand of other textile products including raw cotton, cotton yarn and fabric. The prices of these products have already witnessed a significant correction post Covid-19 crises. This in turn may lead to inventory losses.

Key Rating Strengths

Vast experience of promoters in the cotton ginning business: Mr. Nirav K Shah, Chief Executive Office & Director has over a decades of experience in the ginning industry, actively manages the routine operations of the company. The other directors of the JIL also have vast experience in the cotton ginning business and co-manage the business activities. The promoters are supported by a team of technically qualified and experienced professionals.

Strategically located manufacturing unit along with long standing relationship with reputed customers: The ginning facilities of JIL are located at Kadi in Mehsana District of Gujarat. Gujarat is one of the largest producers of cotton in India. JIL's presence in the cotton producing region results in benefit derived from a lower logistic expenditure, easy availability and procurement of raw materials at effective prices. Further, JIL has a long standing relationship with some of the reputed clients which includes leading textile companies like Arvind Limited and Vardhaman Textile Limited. However, CARE does not have latest operational details.

Analytical Approach: Standalone

Applicable Criteria:

[Policy in respect of Non-cooperation by issuer](#)

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

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

[Criteria for Short Term Instruments](#)

[CARE's methodology for manufacturing Companies](#)

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

About the Company

JIL was incorporated in September 1983, as a private limited company and subsequently got converted into public limited company in December 1994. JIL is engaged in cotton ginning and pressing with an installed capacity of 300 metric tonne per day (MTPD) along with the trading of raw cotton, ginned cotton bales, cotton yarn and cotton seeds. JIL has also set up an oil mill with 11 oil expellers having a combined installed capacity of 10 MTPD for manufacturing wash oil (raw oil) and de-oiled cakes (DOC). The manufacturing facilities of the company are located at Kadi, Gujarat. JIL has also installed a wind turbine generator of 0.80 Mega Watt at Jamnagar.

Brief Financials (Rs. crore)	FY19 (Aud.)	FY20 (Aud.)
Total operating income	151.36	116.66
PBILDT	2.81	2.88
PAT	0.51	0.18
Overall gearing ratio (times)	1.71	1.34
PBILDT Interest coverage ratio (times)	1.51	1.20

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/ ST- Bills discounting/ Bills purchasing	-	-	-	14.50	CARE B; Stable / CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE B+; Stable / CARE A4; ISSUER NOT COOPERATING* on the basis of best available information
Fund-based - LT- Cash Credit	-	-	-	15.00	CARE B; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE B+; Stable; ISSUER NOT COOPERATING* on the basis of best available information

* 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (20-Jul-18)	1)CARE B+; Stable (25-Sep-17)
2.	Fund-based - LT/ ST-Bills discounting/ Bills purchasing	LT/ ST	14.50	CARE B; Stable / CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE B+; Stable / CARE A4; ISSUER NOT COOPERATING* on the basis of best available information	-	1)CARE B+; Stable / CARE A4; ISSUER NOT COOPERATING* (15-Nov-19)	1)CARE BB-; Stable / CARE A4 (19-Feb-19) 2)CARE BB-; Stable / CARE A4 (20-Jul-18)	1)CARE B+; Stable / CARE A4 (25-Sep-17)
3.	Fund-based - LT-Cash Credit	LT	15.00	CARE B; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE B+; Stable; ISSUER NOT COOPERATING* on the basis of best available information	-	1)CARE B+; Stable; ISSUER NOT COOPERATING* (15-Nov-19)	1)CARE BB-; Stable (19-Feb-19) 2)CARE BB-; Stable (20-Jul-18)	1)CARE B+; Stable (25-Sep-17)

* Issuer did not cooperating; based on best available information

Annexure 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT/ ST-Bills discounting/ Bills purchasing	Simple

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.

Contact Us

Media Contact

Mr. Mradul Mishra
Contact No.: +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact

Mr. Krunal Modi
Contact No.: 079-40265614/+91-8511190084
Email ID – krunal.modi@careratings.com

Relationship Contact

Mr. Deepak Prajapati
Contact No.: +91-79-4026 5656
Email ID – deepak.prajapati@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 the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. 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. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, 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. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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